

NEWS SUMMARY

GENERAL

Record heroin haul found

Customs men and drug squad detectives made a number of arrests in London following the discovery of the biggest haul of Chinese heroin ever brought into the UK.

BA to seek fares increase

British Airways is expected to ask the UK and U.S. for permission to raise all transatlantic fares by about 5 per cent, starting next April.

Refinery blaze

At least four people were killed and 11 others injured in a series of explosions at the Continental Oil Company refinery in Denver, Colorado.

Khalid operation

King Khalid of Saudi Arabia underwent open heart surgery in Cleveland, Ohio, his country's Ambassador to the U.S. said.

M-way protest

John Tyne, the seasoned motorway protester, was carried by police out of the M25 inquiry at Bookham, Surrey, after leading a chorus of "Why are we waiting?"

Princess cancels

Princess Margaret has cancelled her five-day visit to the Philippines. Doctors have advised her to continue resting at the Sydney home of the governor of New South Wales.

Charge dropped

Journalist Duncan Campbell, one of three defendants, was acquitted on one of the charges against him when the Old Bailey secrets trial re-started.

Superthief jailed

Richard Jenkins, described by the judge as "a super shoplifter", was jailed for three years in London after admitting 23 charges which included the theft of a Picasso print worth £7,000.

Briefly...

Elizabethan goblet fetched £75,000 at Christie's, a world record for auctioned glassware. Saleroom, Page 9

Chief price changes yesterday

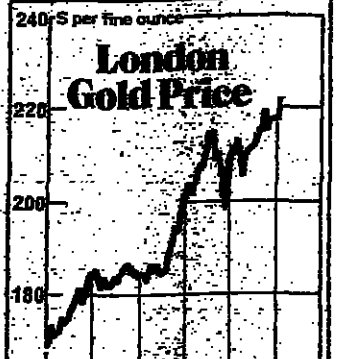
(Prices in pence unless otherwise indicated)

Exchange, 12pc '90-02...	295 + 1
Beecham	712 + 7
Brown (J)	432 + 12
Currys	197 + 7
Dowty	219 + 104
ERP	208 + 13
Farnell Elect.	204 + 123
Footway Invs.	325 + 6
GE	400 + 10
Hamro Life	400 + 30
ICI	142 + 7
London Brick	684 + 6
Marshall	556 + 6
Metal Box	761 + 51
Playagra	123 + 3
Plessey	340 + 11
Racal Electronics	160 + 6
Reed Intl.	182 + 9
Robinson Foods	355 + 6
Royal Insurance	151 + 6
Startrite	137 + 6
Trust Houses Forte	106 + 9
Woodhead (J)	220 + 15
Afrkander Lease	350 + 14
Anglo American Crp.	224 + 10
Anglo Utd. Dev.	85 + 5
Bishopsgate Plat.	267 + 11
Doornfontein	173 + 17
Gold Fields SA	573 + 81
Kloof	34 + 81
Marivele	410 + 35
Norhgate Expln.	248 + 7
RTZ	94 + 6
Rustenburg	805 + 40
St. Helena	106 + 8
St. Piran	1201 + 1
Western Hldgs.	117 + 20
Westfield Minerals	117 + 20

BUSINESS

\$ loses ground; Gold hits new high

DOLLAR lost ground, influenced by predictions from Mr. William Miller, Federal Reserve chairman, that U.S. interest rates would peak before the end of the year.



Equities rally on the Prime Minister's plan

Equities rallied on the Prime Minister's plan of additional monetary and fiscal measures, which could mean higher taxation and tighter monetary controls.

UK reserves rise \$106m

UK's official reserves rose by \$106m last month to \$16.51bn, reversing the previous month's decline of \$330m.

ICI has decided to press ahead

ICI has decided to press ahead with ambitious plans to sanction capital expenditure projects worth more than £800m this year.

Firemen's leaders met local authority employers

Firemen's leaders met local authority employers in an apparent bid to ward off possible renewed militancy by firemen over the 42-hour week at their annual conference next week.

TGWU London regional office instructed members to black work

TGWU London regional office instructed members to black work connected with Ford, where the national strike by 57,000 manual workers is in its second week.

China Provident Company a Hutchinson Whampoa subsidiary

China Provident Company, a Hutchinson Whampoa subsidiary, announced net interim profits of HK\$50.2m (US\$10.81m) against HK\$6.5m in the corresponding 1977 period.

Pioneer Concrete Services plans a one-for-eight scrip issue

Pioneer Concrete Services plans a one-for-eight scrip issue for the second successive year, after a 34 per cent rise in group profits from AS14.6m to a record AS19.6m.

Unions see signs of flexibility on pay

BY RICHARD EVANS AND CHRISTIAN TYLER

MAINTENANCE of single-figure inflation will remain the cornerstone of the Government's economic strategy, the Prime Minister told the Labour Party conference in Blackpool yesterday. If the 5 per cent pay guideline was badly breached, other economic measures would have to be introduced, he said.

What the Prime Minister has done is throw down a challenge to the trade union leadership to tell him how they would maintain the level of inflation in single figures, and thus give Labour a chance of retaining power at the next general election.

The question will be how actively trade union leaders and their members pursue the conference decision to overturn wage controls, and whether the Government will be politically courageous enough to take compensating action should the inflation rate rise.

According to Mr. Callaghan, in a well-received speech designed to keep the temperature down after Monday's traumatic conference defeat for Government pay policy, any increase in earnings above 5 per cent was likely to carry inflation back over 10 per cent, something the Government could not permit.

If the conference decision against wages policy resulted in a weakening in control of inflation, and a return to double figures, then the Government will take offsetting action to keep inflation down through monetary and fiscal measures.

Mr. Callaghan warned: "It is our responsibility. It is necessary that the Government accepts that responsibility and that we shall not seek to evade it."

Although Mr. Callaghan's declaration was being taken at its face value by some, others believed it inconceivable that the Government would introduce measures, including tighter control of money supply and increased taxation, that would raise the level of unemployment in the run-up to a general election.

One obvious area to be explored within the terms of the White Paper will be the possible productivity element in a pay settlement. The Prime Minister stressed the need to keep down wage costs, not necessarily earnings.

"We are ready to encourage wage settlements that include genuine productivity deals, and that therefore give higher earnings which at the same time reduce costs rather than increase wage costs," he said.

Mr. Callaghan hinted that the Government would interpret more flexibility than proposed by the unions.

Continued on Back Page

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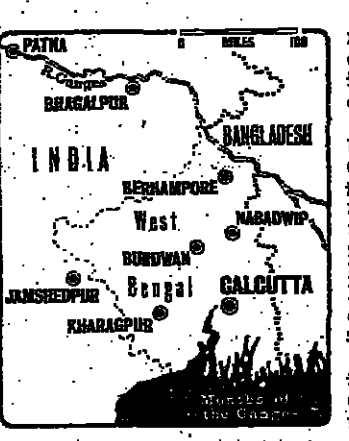
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Continued on Back Page

At least 300 die as floods bring chaos to West Bengal

BY K. K. SHARMA

THE DEATH toll in the floods in India's West Bengal state is at least 300 and the final figure undoubtedly will be much higher. Buses, trains and cars in Calcutta stand in waist-deep water, having been stranded for more than five days. Shops have put up their shutters, and a few offices operate in a half-attended manner because public transport has broken down.



months to restore the shattered economy of the state, the most heavily industrialised in the country.

Its two steel plants, most of the coal mines and the two ports of Calcutta and Haldia are paralysed. Warehouses with jute manufactures and raw jute are under 10 feet of water, and nearly all jute and paddy fields have been washed away.

Many power stations have ceased generating, and officials say that few roads will survive.

The flood began with unrelenting and unseasonal rain on September 27. Thirty inches fell in less than 24 hours before settling to a steady downpour that still continues.

Then came reports of equally heavy rain in the catchment areas of the Damodar and other rivers which caused flash floods that created havoc in West Bengal's 24 districts.

Mr. George Fernandes, Minister of Industry, who flew in from New Delhi, is so shaken by the scenes in Calcutta that he says

water, telephones do not work, trains limp into Howrah station days late, and naked children cry for food as drenched mothers stand helplessly outside collapsed huts pleading for help.

It will be days before Calcutta limps back to anything near normality. It will take weeks before damage from the flooded districts can be estimated, and

Sime Darby to dismiss auditors

BY JAMES BARTHOLOMEW

A MAJOR row broke out yesterday when Sime Darby Holdings, the plantation company and overseas trader based in Malaysia, announced a proposal to sack its long-serving auditors, Turquand and Barton Mayhew and Company.

The auditors intend to fight their dismissal and have described the reasons given by Sime as invalid. "It is up to the board to state its real reasons," Mr. Dennis Garrett, senior partner of Turquand, said yesterday.

Mr. Garrett said that 80 to 90 per cent of the work on Sime Darby's audit was done in the Far East, where his firm is stronger than any other.

Turquand audits 28 out of the top 100 companies quoted on the Kuala Lumpur Exchange, he said.

One-third of the partnership's 3,000 employees are in the Far East.

He conceded that Price Waterhouse was stronger in some parts of the world, particularly the U.S., but could not believe that this was the real reason for his firm's proposed dismissal.

Sime would have to invest a great deal of money abroad before the majority of the audit work ceased to be in the Far East, he said.

Mr. Garrett said that he did not know the real reason why Sime wanted to sack Turquand. He did not believe the cause lay in Turquand's role in the Pinder scandal which hit Sime Darby five years ago.

Mr. Pinder, a previous chairman of the company, was found guilty on several charges including

misuse of funds and sentenced to three years' imprisonment. Turquand played a significant part in exposing him. The senior partner involved committed suicide.

Turquand claims it has good reason to believe that Sime has confidence in its competence. And although from 1972 to 1974 they disagreed about the accounting treatment of acquisitions, Turquand doubts that this is the fundamental reason for its dismissal.

Turquand understands that the Sime board was not unanimous in its decision to sack its auditors of over 21 years' standing. But Mr. Garrett would not name the directors he believes are on his firm's side.

The auditors will fight their dismissal by sending circulars to shareholders before the annual meeting on November 17. They hope that publicity about their dismissal will force Sime to disclose the real reason, enabling them to produce a reply.

Lex, Back Page

Celanese and Olin merge in \$720m deal

BY JOHN WYLES

NEW YORK, Oct. 3

A SIGNIFICANT realignment within the U.S. chemical industry emerged today with the surprise announcement of a \$720m (£365.5m) agreement to merge Celanese Corporation and Olin Corporation.

Although based in New York, Celanese has made no secret of this year's aim of expanding into new products through an acquisition. But few on Wall Street had expected a consolidation of this magnitude which ranks as one of the year's five largest prospective mergers.

On last year's total sales, Celanese-Olin combination would rank sixth in the U.S. chemical industry above such giants as Allied Chemical, PPG and American Cyanamid.

Today's brief announcement offered few explanations for the merger beyond the creation of a company "with a broader and more diverse product line."

The agreement in principle will be considered by the boards of the two companies on Thursday. It provides for the payment of \$30 a share for up to 30 per cent of Olin's approximately 24m shares outstanding. The balance will be paid on the basis of 1/3 of a share of Celanese common and 2/3 of a new Celanese convertible preferred stock.

The stock analysts' initial reaction was that the offer would prove attractive to Olin shareholders because it would yield a 60 per cent premium over the company's closing share price last night of \$18.75.

Olin's book value is in the region of \$27 a share, and today's announcement brought a swift reaction in share values to \$25.5.

The reaction of the regulatory authorities will be closely watched for indications of an anti-trust investigation. On the surface, however, there seems to be little overlap since Olin specialises in inorganic commodity chemicals while Celanese is a diversified producer of fibres, petrochemicals, plastics and polymer products.

Olin has developed an increasingly strong custom chemical business over the past few years based on hosiery, flame retardants, and urethane chemicals. This business coupled with its brass production is seen as the kernel for promising growth in the next five to 10 years.

Olin's other activities include the production of stainless steel strips and coils, paper and cellophane and sporting arms and ammunition. Celanese returned net earnings of \$70m (£35.5m) on sales of \$2.32bn (£1.17bn) in 1977 and Olin \$78.1m (£39.6m) on sales of \$1.47bn (£746m).

But the coal strike, a fire at a strike which halted its brass production are expected to reduce Olin's earnings this year from \$32.4 per share to around \$2.50.

No details have yet been disclosed as to how the new company will be organised. Celanese is headed by Mr. John D. Macomber, president and chief executive, who joined the company five years ago from McKinsey and Company, the international consultants. Mr. John Henske, president and chief executive of Olin, is a former director of Dow Chemical Company. He was put at the helm of Olin earlier this year.

Sadat sacks two generals

BY ROGER MATTHEWS IN CAIRO AND ANTHONY McDERMOTT IN LONDON

EGYPT'S two top generals were yesterday removed from their posts by President Anwar Sadat, General Mohammed Abdel Ghami Gamay, the War Minister, and General Mohammed Ali Fahmi, the Chief of Staff were both

reappointed presidential military advisers.

These changes come two days after Mr. Sadat sacked Mr. Mamoud Salem, his Prime Minister for more than three years, and replaced him with Dr. Mustafa Khalil. They come two and a half months after Mr. Sadat, who has promised a sweeping "administrative revolution," formed the National Democratic Party, a move which has reshaped the political scene.

Above all, these moves must be seen as efforts to strengthen the President's position in the country in the wake of the Camp David summit.

Negotiations on the conclusion of a treaty with Israel are due to start on October 12 in Washington, but observers have not ruled out General Gamay's playing an important role there.

The changes probably do not reflect discontent within the armed forces at the terms of the Camp David accord.

General Ahmed Badawi, a former commander of the Third Army and in charge of army training and organisation since June, has been appointed chief of staff, but no replacement for General Gamay has been announced.

He might be replaced by Major-General Hassan Ibrahim, head of the Egyptian General Intelligence Organisation.

The Middle East after Camp David, Page 22

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CONTENTS OF TODAY'S ISSUE

European news	2-3	Technical page	14	Intl. Companies	27-29
American news	4	Management page	19	Euromarkets	27
Overseas news	4	Arts page	21	Money and Exchanges	29
World trade news	5	Leader page	22	World markets	30
Home news - general	6, 8-10	UK Companies	24-26	Farming, raw materials	31
- labour	11	Mining	26	UK stock market	38

FEATURES

The Middle East after Camp David	22	Gardens Today: Winter flower power	20	Bonuses Textiles: The Willot Brothers move	28
Shipping: A picture of unrelenting gloom	23	Battles about reassurance in the steel valleys	32	FT SURVEYS	
Why Charterhouse backs the Byte Shops	19	Guinea-Bissau economy	3	Kawalt	33-37
				U.S. futures market	15-18

Appointments	38	Letters	23	Today's Events	23	Statistics and Genl.	24
Agenda	38	Lex	42	TV and Radio	23	Flag Invas.	24
Crossword	38	Lombard	26	Unit Trusts	39	Wastemats (Hdgs.)	24
Entertainment Guide	38	Wells and Maitland	26	Weather	42		
European Cts.	38	Racing	36				
FT Accounts Indices	38	Salesmen	41	INTERIM STATEMENTS			
Gardening	38	Share Information	40-41	Bank Pulp & Paper	25	Sign Holders	24
						Tre Investment	24

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EUROPEAN NEWS

Turkey may reopen U.S. bases soon

BY METIN MUNIR

ANKARA, Oct. 3

THE U.S. bases in Turkey, bases and put them under constituting what has been described as the most advanced land-based surveillance network in the world, are to be reopened "within a week or so" after having been shut for over three years, senior Turkish government officials said here today.

The Prime Minister, Mr. Etiler, said today that the decision to reopen the bases was taken by the National Security Council — the country's highest consultative body — yesterday, has come in the wake of the decision to lift the embargo on arms supplies to Turkey. The decision to reopen the bases was taken by the National Security Council — the country's highest consultative body — yesterday, has come in the wake of the decision to lift the embargo on arms supplies to Turkey. The decision to reopen the bases was taken by the National Security Council — the country's highest consultative body — yesterday, has come in the wake of the decision to lift the embargo on arms supplies to Turkey.

ments. Talks on a new one are to start in Ankara next month, the sources said. It is expected to take a year before it is signed during which the bases will still be allowed to operate.

The key bases which would be reopened are Kargaburun, a U.S. Navy communications station, located in European Turkey, intelligence collection sites at Sincop on the Black Sea, Balhasi in Central Turkey and Diyarbakir in the south east.

When active these bases kept).

Doubts on Belgian growth forecast

By Giles Merritt

BRUSSELS, Oct. 3

SERIOUS doubts about Belgium's ability to meet current OECD economic growth forecasts are now being expressed inside the Government here. According to reports in Brussels, the Belgian Central Economic Council is concerned that the 3.75 per cent increase in gross national product for 1978 outlined at the end of August by the Paris-based Organisation for Economic Co-operation and Development may not now be met.

The Belgian economic planning body is understood to have just completed a cautious assessment of the country's economic indicators and to have concluded that the OECD's report's assumption of a 2.5 per cent growth in real disposable household income and a 3.5 per cent rise in exports are open to doubt.

The council has pointed out that during the first half of this year consumer sales rose by only 2 per cent over the same period of 1977. The first six months of this year also saw Belgian export earnings increase by a mere 1 per cent compared with the equivalent 1977 half, even though a flurry of demand in July pushed the 1978 seven-month rate 2.1 per cent higher than for January-July, 1977.

Credit squeeze in Ireland

By Stewart Dalby

DUBLIN, Oct. 3

AT THE prompting of the Government, Ireland's central bank has introduced a squeeze on consumer spending. It has instructed the country's licensed banks, including organisations other than joint stock banks, to limit private sector credit including some mortgages and property. It has said, should be no more than 10 per cent over the next six months. Personal loans for items other than property, it has said, should be restricted to a rise of 5 per cent.

The move has been taken because the 20 per cent guideline for an increase of private sector credit laid down at the beginning of the year has been vastly exceeded.

One leading economist estimated this evening that loans for consumer items other than mortgages and property have been rising since early this year by nearly 50 per cent on an annual basis. Since many of the purchases include such items as foreign cars, the easy credit has had the effect of boosting imports and stoking inflation—currently running at 8 per cent on an annual basis.

From February to August this year, loans for items other than mortgages and property are estimated to have risen by some £7.5m a month.

\$100m U.S. aid to ease Portugal payments deficit

BY JIMMY BURNS

THE U.S. has released a further \$100m of its share of a \$150m western aid package arranged in Paris last year to help finance Portugal's balance of payments deficit.

The U.S. originally pledged \$300m, the largest contribution from a group of OECD member states. It was clearly the credit line with the greatest psychological weight in terms of its ability to affect future business confidence in Portugal. \$200m of this was made conditional on Portugal showing evidence of "satisfactory progress" in its negotiations with the International Monetary Fund. The first part of the loan was released in May following the signing of a draft letter of intent by the

Portuguese Government pledging to reduce its balance of payments deficit from \$1,475bn to \$800m between March 1978 and March 1979.

The original loan agreement, the U.S. agreed to make available the second part of its contribution within 120 days of formal acceptance of the letter of intent by the IMF. The delay in unblocking the loan gave the U.S. Administration some breathing space in which to observe Portugal's economic performance, particularly in its ability to meet the targets set by the IMF.

The Bank said that bearing in mind the main object of the IMF agreement was a reduction in the balance of payments deficit, the figure was compatible with a current account deficit of \$1bn and a trade deficit of \$2.5bn.

194—\$63m in July and \$67m in August. Bank of Portugal officials said today that they expected to make better use of the U.S. loan in the remaining months of this year.

U.S. officials, for their part, have indicated that the four month delay in unblocking the loan gave the U.S. Administration some breathing space in which to observe Portugal's economic performance, particularly in its ability to meet the targets set by the IMF.

Spanish shipyard dispute ends

BY ROBERT GRAHAM

MADRID, Oct. 3

THE LONGEST and most bitter labour conflict since the legalisation of trade unions 18 months ago has ended. The dispute at the shipyards, Astilleros Y Construcciones (Ascon), in the north-western port of Vigo, stemmed from management efforts to rationalise the labour force that resulted in a seven month lock-out.

The most noticeable feature of the conflict has been the deep divisions between the strike committee, strongly supported by the local population, and the two main national trade union organisations—the Communist Workers Commissions (CCOO) and the Socialist-Oriented General Workers Union (UGT).

Ascon builds and repairs mainly fishing vessels and though below that of the country's leading shipbuilders, it ranks fifth in terms of turnover. In March, 1977 the company changed hands from its Vigo-based family ownership to the Perez group in close down the two yards on

Because of the dependence of the region on the shipyards and the suspicions over the new management, some workers sought to promote a strike. As a result, 46 workers were sacked. But immediately the rest of the workforce came out in sympathy, which led the management to

Initially the strike committee formed by the workforce had the support of the CCOO and UGT, although they were not the majority. Whenever the main trade unions sought to promote dialogue and obtain a reopening of the yards, the strike committee opposed it.

By early January the 1,850-strong workforce suspected that the management was planning a major reduction in employment.

Dutch growth fund delayed

BY CHARLES BATCHELOR

AMSTERDAM, Oct. 3

HOLLAND'S LONG-AWAITED plans for capital growth-sharing will be delayed for another year, the Government has said. The plan, which would allow companies to share profits with employees, is expected to be passed by Parliament before next spring. The scheme will be retrospective to January, 1979.

Instead of January, 1978, as originally planned Prime Minister Dries van Agt said after a cabinet meeting.

The Dutch plans for capital growth-sharing will require companies making profits of at least £1,000,000 (\$43,000) a year to pay a percentage of profits into a central fund. Part of the excess profits thus created will go to the workforce of the individual company while the rest will go into a collective fund.

The individual and the collective parts of the growth fund, VAD, will be levied at a rate of 12 per cent each on profits after companies are allowed a return on capital employed. The end in the number of cars on the country's roads already crowded with cars. An ageing population means there will be an increased call for medical services aimed at the elderly while the demand for child care and day nurseries will decline.

These developments require a change in government spending priorities over the next decade, the Commission for Consumer Affairs (CCA) said in a report. The CCA groups employers, unions and consumer organisations and is part of the Social Economic Council, the senior Government advisory board.

In a separate development, a report has revealed that increased leisure will lead to a radical change in spending patterns in Holland by the year 1990. The do-it-yourself sector

Moscow rebuff for Oslo

By Fay Gjester

OSLO, Oct. 3

RUSSIA HAS PUT off at the last minute a goodwill visit to Moscow by Mr. Johan Jørgen Holst, Norway's Deputy Minister of Defence. The visit, which was to have started today, was at the invitation of General I. G. Pavlovsky, Deputy Defence Minister and commander-in-chief of Soviet land forces. It was discussed in April and dates were fixed in July.

On Saturday, Russia's ambassador to Norway told the Foreign Ministry that the visit would have to be postponed because of "circumstances which have arisen." Late yesterday the Norwegian Defence Ministry announced that a new date for the visit would be set after contacts between the governments.

The Russian move is seen in Oslo as an indication of Soviet displeasure with Norway's military authorities after an incident involving a Russian military aircraft. The aircraft crashed on the Norwegian Arctic island of Hopen in August, and the Norwegians refused to hand over the flight recorder. The instrument is now being held by the commission investigating the accident. The Russians have not yet accepted Norway's offer to let a Soviet expert be present when the recorder is opened and interpreted.

A recent visit to Russia by the Norwegian Environment Minister went ahead as planned in a cordial atmosphere, despite the incident, suggesting that Soviet irritation is directed mainly at Norway's military establishment.

Some experts suggest that the flight recorder may become useless if there is much further delay in opening it. The container was damaged in the crash and it could rust inside if too much time is allowed to elapse, the experts say.

Denmark aims at deficit reduction

BY HILARY BARNES

COPENHAGEN, Oct. 3

PRIME MINISTER Anker Jørgensen promised a reduction in Denmark's current balance of payments deficit by about Kr 1bn (\$95m) to Kr 6.5bn next year and further reductions in future when he addressed the Folketing today, at the opening of the new Parliamentary year.

The coalition government of Social Democrats and Liberals, formed at the end of August, is expected to face a stormy session this autumn as it attempts to carry through a tightening-up of

fiscal policy, combined with measures of support for employment and business. This will be followed up by incomes policy measures in the spring, in connection with the renewal of the two-year collective wage contracts.

The Government's first major problem may arise next week when a Bill to change the indexation base for income-tax from the hourly wage index to consumer price index is considered. The measure will in-

crease Government revenue next year by about Kr 1.3bn, AP adds. Thousands of Danish workers downed tools and joined protest demonstrations today to protest at Prime Minister Jørgensen's statement. More than 10,000 workers gathered at the Folketing square in a demonstration denouncing the alliance of the Social-Democratic Labor Party with the Liberals.

The strikes halted virtually all ferry traffic and upset mail distribution in Copenhagen.

Falldin ducks the nuclear issue

BY JOHN WALKER

STOCKHOLM, Oct. 3

THE SWEDISH Government skirted round the country's nuclear energy crisis at the opening of the autumn session of the Riksdag (Parliament) today. Mr. Thorbjörn Falldin, the Prime Minister, concentrated instead on the economic situation, suggesting that the three parties in the coalition Government have failed to sink their differences.

Mr. Falldin adopted a strong anti-nuclear stance when he came to power two years ago,

a position not shared by his partners. Six reactors are currently on stream, but Mr. Falldin has held up the commissioning of two others by insisting that the companies concerned have not met the legal requirements for the disposal of nuclear waste.

Last week the leaders of the three coalition parties agreed to postpone the date for fuelling the two new plants until agreement is reached on disposal measures. The future of the plants is likely to be a key topic at Thursday's Cabinet meeting.

On the economy, Mr. Falldin said that the middle of this year would be a turning point, and that although industrial production had started to rise after a three-year decline it was not running anywhere near capacity. He emphasised that wages and prices had to be kept in check.

The Premier outlined measures for reducing unemployment and promised that legislation would be presented later this year spelling out the reorganisation of the textile, forestry and shipbuilding industries.

Brzezinski in Bonn talks on security

BY JONATHAN CARR

BONN, Oct. 3

THE SECURITY problems for Western Europe posed by Soviet medium range rocketry—the so-called "grey zone" weapons—are believed to have been a key topic in talks here today between President Jimmy Carter's National Security Affairs Adviser, Mr. Zbigniew Brzezinski, and West German leaders.

Mr. Brzezinski was informing Chancellor Helmut Schmidt and

the Defence Minister, Herr Hans Apel, of the latest position in the second round of the Strategic Arms Limitation Talks (SALT 2), which are now thought to be nearing success.

Bonn is deeply concerned to ensure that the U.S. and the Soviet Union do not reach a new SALT accord involving intercontinental strategic weaponry which leaves the medium range rockets untouched.

The Soviet Union—with its SS-20 rocket and Backfire

bomber—has a superiority in medium range weaponry which the Germans feel must be limited at or through the SALT discussion.

West Germany today granted Sudan DM80m (\$40m) in financial aid this year under an agreement signed in Bonn. Foreign Minister Hans-Dietrich Genscher and his Sudanese counterpart, El-Rasheed el-Tahir, who is accompanying President Jaffar Nimeiri on his state visit to West Germany signed the agreement.

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EUROPEAN NEWS

LORRAINE

Shadows deepen in the steel valleys

BY DAVID WHITE, RECENTLY IN NEUVES-MAISONS

FROM THE Steelworks Cafe at Neuves-Maisons, in the wooded hills near Nancy, you can see the grey and brown and through the drizzle the new structure of heavy girders, rising like a nasal funeral dirge against the sky, grey on grey. A Uckange, Florange, Ebange, flames next to it coughs out Knutange, Hayange, Hagondange, and billows ochre smoke. In the middle of the old steelworks, already part-condemned because of its pollution, it stands out like the frame of a great railway station or the nave of a modern cathedral.

It might as well be a station or a cathedral rather than the oxygen steel plant it was designed to be, for there is nobody working on the site. Planned as one of the most advanced facilities of its kind, its fate—closure before completion—is unlikely to change under the new Government rescue plan for the French steel industry.

Adding up what has been invested at Neuves-Maisons in recent years, the work on making the Moselle navigable to the site and the cost of the plant itself, abandonment means writing off the small sum of FFf 1.7bn (€290m).

The axe has been hovering over the plant since July, when Chiers-Chailion, the owners made a co-operation pact with Usinor, the biggest French steel producer, which has a rival project on the drawing-board. Since both companies, as well as the biggest Lorraine group Saurer-Sollac, will now have common houses in the state and the state-owned banks, there seems to be no question of going ahead with both plants.

For Neuves-Maisons and its 7,000 people it is like waiting for a death sentence. The walls of the works and the town are plastered with defiant posters: "Neuves-Maisons will live!"

The same theme is echoed 50 miles away, on the Moselle north of Metz and in the neighbouring valleys of the Fensch and the Orne, where Lorraine's steel industry is most concentrated—a string of desolate



"THE reconversion of Lorraine has been a success..." M. Pierre Messmer, French Prime Minister, in Metz, 1972. "Everything being planned for Lorraine gives the impression today of a work-site hardly begun and already two-thirds abandoned," M. Pierre Messmer, chairman of Lorraine Regional Council, in Metz, last week.

brunt will be felt in Lorraine, where three-quarters of the current 16,200 job reduction programme is already being carried out—a two-year scheme agreed in mid-1977 between employers and the middle-of-the-road union, Force Ouvrière.

Lorraine remains the country's biggest steel centre, but its share of output has dropped from more than half in 1974 to about 42 per cent today. A lot of equipment is old, but by no means all.

The Saurer-Sollac group, and the Orne, where Lorraine's steel industry is most concentrated—a string of desolate

Sollac has agreed to co-operate with another group, from Normandy, and its big old complex at Jouffroucourt is probably due for the chop. The 3,000 workers at Hagondange on the Moselle (which, up to 1914, when this was German territory, was the site of August Thyssen) also expect to be redundant by 1981.

The companies say that the French steel industry has been slower in trimming its workforce than the Belgian, Luxembourg, and West German competition, and that it now has to catch up with the rest of the EEC. The

impact is all the worse since the Lorraine steelmakers put off until last year their plan to run down its Thionville operation and build its FFf 400m oxygen plant at Longwy instead, was closing equipment only three years old. Of the 4,000 who used to work there, only 1,000 have been kept on. The windows on the frontage are broken. Usinor management refuses to discuss future plans in the region. Like Usinor, Saurer-

The decline of steel follows that of the coal and iron ore industries on which the steel industry was first based. In 1859, there were 60 ore pits being worked. There are now 23, and even those thanks partly to union obstinacy; three more are due to close in the next few months. In less than 20 years the workforce of 26,000 has been reduced by 80 per cent.

The labour reaction is a mixture of resignation and revolt. There is on the one hand a strong streak of union militancy. Except in the recently-built Sollac rolling-mills, the Communist-inspired CFT dominates. Italian names are common among its organisers. Italians being the biggest immigrant community.

Recently, unions called a one-day protest strike against the plan in the region's main steelworks. Demonstrators blocked the Metz-Thionville motorway and the protest was judged a success. But according to the companies, the strike had less than 50 per cent support. Union membership is low, the unions' propaganda machine is weak, the Press a conservative monopoly. Some unionists talk in terms of a lone strike, but others are wary, afraid that it would peter out after a day or two.

The mood, now at least, does not seem to be in favour of dipping in for a Verdun defence. What appears more probable is that people will gradually leave (headed by the immigrant Italians and Algerians) to places where the job market is less grim. The shades of grey and brown in the steel valleys will probably grow murkier still.

Europe's smallest army goes for growth

HERRENBERG, Oct. 3.

THE LUXEMBOURG army is the smallest fighting force in Europe—with 630 men. But it is taken very seriously in this independent nation of 368,000 people.

"Our country is small, but we don't think liberty should be handed to us on a golden plate by the bigger countries," says Lt. Col. Marcel Goedert, executive officer of Luxembourg's one military base at Herrenberg 35 kms (21 miles) north of the national capital.

At present, the heaviest weapon in the army's possession is an immobilised World War Two American tank. This smallest of NATO forces has no aircraft, no armoured vehicles and has to practice infantry tactics in neighbouring West Germany because there is no room for large scale manoeuvres in Luxembourg itself.

On September 1, the army was increased from two infantry companies to three, with a 13 per cent increase in manpower. Officers admit, however, that part of the goal was to absorb some of Luxembourg's 1,165 unemployed people.

The Luxembourg defence budget this year is \$31m, compared to \$17bn for neighbouring France. But officials say confidently that Luxembourg will boost defence spending by 3 per cent per year for the next five years—a NATO goal that several other alliance members have been unable to meet.

In addition, the country may soon form its first standing reserves since the 1960s. There used to be a reserve of about 5,000 men and an army of 1,500 until 1967, when compulsory military service was ended. Nowadays a main attraction in joining the army is a guaranteed job upon discharge in the national police, prison service, post office, customs or forest service.

The Luxembourg army always keeps on call at least 60 per cent of its men assigned to the mobile force. The others can be contacted within one hour. The only NATO territory where the Luxembourgers seem unprepared to fight is in the cold climate of Northern Norway. Its army has never shown enthusiasm for acquiring the arctic uniforms and training needed.

Luxembourg has also refrained from appointing any Generals in its armed forces. The top military man is a Colonel, AP.

THE GUINEA-BISSAU ECONOMY

Post-war grain of hope

BY TONY HODGES, RECENTLY IN BISSAU

AT THE Domingos Ramos Agricultural Co-operative, a farm community named after a guerrilla commander who died fighting the Portuguese in 1960, fields of rice and sugar-cane are flourishing after this year's generous rains. Farmers expect a bumper crop when the harvest starts in November.

For the first time since independence in 1973, Guinea-Bissau may become self-sufficient in rice, its basic food. For the past four years, the ruling African Party for the Independence of Guinea and Cape Verde (PAIGC) has been battling to resurrect its agricultural-based economy which was decimated by the 11-year conflict and the displacement of a sixth of the population across the country's borders as refugees.

Portuguese statistics show that the total land area under cultivation here fell from 410,000 hectares in 1963 to only 135,000 hectares in 1972. In the same period, rice output plummeted from over 100,000 tons to less than 30,000 tons and production of groundnuts, the country's main export from nearly 64,000 tons to 28,000 tons. Once a net exporter of rice, Guinea-Bissau had to start importing it in 1965 and by 1974 the year of independence, 30,000 tons were being imported annually.

With no mining industry and practically no manufacturing sector (manufacturing last year employed a grand total of 1,833), the disruption of agriculture landed Guinea-Bissau with a colossal trade deficit. The deficit reached a record 1bn pesos in 1974, when exports covered barely 8 per cent of the import bill. Since then, the PAIGC has been trying to recover.

And until last year, when the Sahelian drought swept southwards into Guinea-Bissau for the first time, wiping out more than half the rice crop, it had registered some impressive progress.

Rice imports had been reduced to less than 11,000 tons a year by 1976 and exports of groundnuts doubled between 1975 and 1977, rising from 8,000 to 16,000 tons.

All-told, exports quintupled from a mere \$3.4m pesos in 1974 to 42.7m pesos last year, while strict import controls and the rise in domestic rice production meant that imports rose only marginally. The rate of cover of imports by exports improved to 35 per cent last year.

Then the drought struck. Fifty per cent of the rice crop was lost in the key rice-growing region of Tombali, which normally accounts for 70 per cent of the

country's total rice production. Across the country as a whole, says Sr Avilio Jose da Silva, secretary-general at the State Commission of Agriculture, rice production fell from 80,000 tons in 1976 to only 30,000 tons last year.

He said that production of groundnuts fell, too, from 45,000 tons to 27,000.

Inevitably the trade deficit has dramatically widened again. Sr Armando Ramos da Silva, the State Commissioner of Trade, says that Guinea-Bissau is having

Guinean fishing company Estrela do Mar.

The Russians have also negotiated rights for their trawlers to fish inside Guinea-Bissau's 150-mile fishing limit. Sr Joseph Turpin, the Secretary of State for Fisheries, says that 20 Soviet trawlers are licensed to fish there, with Guinea-Bissau receiving the proceeds from 15 per cent of their catch. The total value of the Soviet catch appears to be around £15m a year, about five times more than Guinea-Bissau's own fish exports.

Mineral prospecting has also begun. According to Sr Pio Correia, the Director-General of the state mineral company Petrominas, Hungarian prospectors have estimated the country's bauxite deposits in Boe, at 250m tonnes. A more detailed study, he said, is now being made by a Russian team while the French Bureau de Recherches Géologiques et Minières is prospecting for Phosphates in Caeu and Oio.

World market conditions, however, may not favour exploitation of the bauxite deposits, and considerable investment would be required. Sr Correia says that Seagap, a consortium led by Agip, has applied for a licence to search for offshore oil, slightly to the south of where Essu found oil in 1958.

But he is unhappy with some of the terms proposed by Seagap and no agreement has yet been reached.

Meanwhile, as it battles with a legacy of colonial misrule, wartime disruption and drought, the PAIGC is adopting the policy of strict non-alignment to attract aid from both West and East, and Arab states too.

So far, except in the fishing industry and bauxite prospecting, practically all the aid has come from the West. All this year's unprecedented rice imports, says Sr Armando da Silva, are being paid for by aid donors, almost all of them Western governments. The main rice-aid supplier is the United States, he said, followed by Sweden, Denmark, West Germany and Holland.

Last year's aid-tid totalled 424.5m pesos, 35 per cent of total imports. And monetary transfers and capital inflows, again overwhelmingly from the West, have secured overall balance of payments equilibrium.

External debt is mounting, however, and the debt service ratio is already 15 per cent, according to officials at the State Commission of Finance.

Conservative Arab states have been wooed. Saudi Arabia is investing \$4.5m in a groundnut-oil plant and Kuwait is loaning \$7m to rebuild the airport here.



Gaullists urge changes to economic policy

BY ROBERT MAUTHNER

PARIS, Oct. 3.

THE GAULLIST Party, the biggest number of the ruling coalition intends to tell the Government that it must modify its economic policy and take more notice of the Gaullists' views if it wants to retain their support.

After a meeting of the party's political council, it was announced that the Gaullists would send a high-level delegation to explain its position to M. Ray, members of the council that the

M. Yves Guena, one of the Gaullist Party's closest aides, said that the party's strong criticism was expressed at the council's meetings of the policies pursued by the Government.

M. Chirac, who has repeatedly called upon the Government to send more effective steps to stem the left-wing opposition. The Gaullists' warning followed a much-publicised speech

backed suffered by the coalition parties was the direct result of public dissatisfaction with the Government's economic policies. The Government had made a number of fundamental errors of appreciation since its general election victory in March and had restored the credibility of the left-wing opposition.

The Gaullists' warning followed a much-publicised speech by the week-end by M. Michel

Dohre, a former Prime Minister, who said that the party should give serious consideration to withdrawing from the coalition, failing a modification of M. Barre's austerity policies.

In spite of their criticism of the Government, however, M. Guena confirmed today that the Gaullists would not support the Socialist's censure motion which was tabled in the National Assembly yesterday.

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322-323, 324-325, 326-327, 328-329, 330-331, 332-333, 334-335, 336-337, 338-339, 340-341, 342-343, 344-345, 346-347, 348-349, 350-351, 352-353, 354-355, 356-357, 358-359, 360-361, 362-363, 364-365, 366-367, 368-369, 370-371, 372-373, 374-375, 376-377, 378-379, 380-381, 382-383, 384-385, 386-387, 388-389, 390-391, 392-393, 394-395, 396-397, 398-399, 400-401, 402-403, 404-405, 406-407, 408-409, 410-411, 412-413, 414-415, 416-417, 418-419, 420-421, 422-423, 424-425, 426-427, 428-429, 430-431, 432-433, 434-435, 436-437, 438-439, 440-441, 442-443, 444-445, 446-447, 448-449, 450-451, 452-453, 454-455, 456-457, 458-459, 460-461, 462-463, 464-465, 466-467, 468-469, 470-471, 472-473, 474-475, 476-477, 478-479, 480-481, 482-483, 484-485, 486-487, 488-489, 490-491, 492-493, 494-495, 496-497, 498-499, 500-501, 502-503, 504-505, 506-507, 508-509, 510-511, 512-513, 514-515, 516-517, 518-519, 520-521, 522-523, 524-525, 526-527, 528-529, 530-531, 532-533, 534-535, 536-537, 538-539, 540-541, 542-543, 544-545, 546-547, 548-549, 550-551, 552-553, 554-555, 556-557, 558-559, 560-561, 562-563, 564-565, 566-567, 568-569, 570-571, 572-573, 574-575, 576-577, 578-579, 580-581, 582-583, 584-585, 586-587, 588-589, 590-591, 592-593, 594-595, 596-597, 598-599, 600-601, 602-603, 604-605, 606-607, 608-609, 610-611, 612-613, 614-615, 616-617, 618-619, 620-621, 622-623, 624-625, 626-627, 628-629, 630-631, 632-633, 634-635, 636-637, 638-639, 640-641, 642-643, 644-645, 646-647, 648-649, 650-651, 652-653, 654-655, 656-657, 658-659, 660-661, 662-663, 664-665, 666-667, 668-669, 670-671, 672-673, 674-675, 676-677, 678-679, 680-681, 682-683, 684-685, 686-687, 688-689, 690-691, 692-693, 694-695, 696-697, 698-699, 700-701, 702-703, 704-705, 706-707, 708-709, 710-711, 712-713, 714-715, 716-717, 718-719, 720-721, 722-723, 724-725, 726-727, 728-729, 730-731, 732-733, 734-735, 736-737, 738-739, 740-741, 742-743, 744-745, 746-747, 748-749, 750-751, 752-753, 754-755, 756-757, 758-759, 760-761, 762-763, 764-765, 766-767, 768-769, 770-771, 772-773, 774-775, 776-777, 778-779, 780-781, 782-783, 784-785, 786-787, 788-789, 790-791, 792-793, 794-795, 796-797, 798-799, 800-801, 802-803, 804-805, 806-807, 808-809, 810-811, 812-813, 814-815, 816-817, 818-819, 820-821, 822-823, 824-825, 826-827, 828-829, 830-831, 832-833, 834-835, 836-837, 838-839, 840-841, 842-843, 844-845, 846-847, 848-849, 850-851, 852-853, 854-855, 856-857, 858-859, 860-861, 862-863, 864-865, 866-867, 868-869, 870-871, 872-873, 874-875, 876-877, 878-879, 880-881, 882-883, 884-885, 886-887, 888-889, 890-891, 892-893, 894-895, 896-897, 898-899, 900-901, 902-903, 904-905, 906-907, 908-909, 910-911, 912-913, 914-915, 916-917, 918-919, 920-921, 922-923, 924-925, 926-927, 928-929, 930-931, 932-933, 934-935, 936-937, 938-939, 940-941, 942-943, 944-945, 946-947, 948-949, 950-951, 952-953, 954-955, 956-957, 958-959, 960-961, 962-963, 964-965, 966-967, 968-969, 970-971, 972-973, 974-975, 976-977, 978-979, 980-981, 982-983, 984-985, 986-987, 988-989, 990-991, 992-993, 994-995, 996-997, 998-999, 1000-1001, 1002-1003, 1004-1005, 1006-1007, 1008-1009, 1010-1011, 1012-1013, 1014-1015, 1016-1017, 1018-1019, 1020-1021, 1022-1023, 1024-1025, 1026-1027, 1028-1029, 1030-1031, 1032-1033, 1034-1035, 1036-1037, 1038-1039, 1040-1041, 1042-1043, 1044-1045, 1046-1047, 1048-1049, 1050-1051, 1052-1053, 1054-1055, 1056-1057, 1058-1059, 1060-1061, 1062-1063, 1064-1065, 1066-1067, 1068-1069, 1070-1071, 1072-1073, 1074-1075, 1076-1077, 1078-1079, 1080-1081, 1082-1083, 1084-1085, 1086-1087, 1088-1089, 1090-1091, 1092-1093, 1094-1095, 1096-1097, 1098-1099, 1100-1101, 1102-1103, 1104-1105, 1106-1107, 1108-1109, 1110-1111, 1112-1113, 1114-1115, 1116-1117, 1118-1119, 1120-1121, 1122-1123, 1124-1125, 1126-1127, 1128-1129, 1130-1131, 1132-1133, 1134-1135, 1136-1137, 1138-1139, 1140-1141, 1142-1143, 1144-1145, 1146-1147, 1148-1149, 1150-1151, 1152-1153, 1154-1155, 1156-1157, 1158-1159, 1160-1161, 1162-1163, 1164-1165, 1166-1167, 1168-1169, 1170-1171, 1172-1173, 1174-1175, 1176-1177, 1178-1179, 1180-1181, 1182-1183, 1184-1185, 1186-1187, 1188-1189, 1190-1191, 1192-1193, 1194-1195, 1196-1197, 1198-1199, 1200-1201, 1202-1203, 1204-1205, 1206-1207, 1208-1209, 1210-1211, 1212-1213, 1214-1215, 1216-1217, 1218-1219, 1220-1221, 1222-1223, 1224-1225, 1226-1227, 1228-1229, 1230-1231, 1232-1233, 1234-1235, 1236-1237, 1238-1239, 1240-1241, 1242-1243, 1244-1245, 1246-1247, 1248-1249, 1250-1251, 1252-1253, 1254-1255, 1256-1257, 1258-1259, 1260-1261, 1262-1263, 1264-1265, 1266-1267, 1268-1269, 1270-1271, 1272-1273, 1274-1275, 1276-1277, 1278-1279, 1280-1281, 1282-1283, 1284-1285, 1286-1287, 1288-1289, 1290-1291, 1292-1293, 1294-1295, 1296-1297, 1298-1299, 1300-1301, 1302-1303, 1304-1305, 1306-1307, 1308-1309, 1310-1311, 1312-1313, 1314-1315, 1316-1317, 1318-1319, 1320-1321, 1322-1323, 1324-1325, 1326-1327, 1328-1329, 1330-1331, 1

Japan fears mission from U.S. may be unsuccessful

BY CHARLES SMITH
NEW YORK
BILATERAL TRADE between Japan and the U.S. will have to be narrowed by expanding U.S. exports rather than reducing Japanese imports from Japan, Optimism among U.S. officials is that this will really be the case, anything like its present state, the U.S. Commerce Secretary, Mr. J. J. C. Kresps, declared in Tokyo today.

Mrs. Kresps, who is visiting Tokyo concurrently with the U.S. export mission, said it was dispatched to Japan, said it was responsible for the U.S. to ignore the fact that its deficit with Japan has been rising through-out the past year. The mission, which is headed by Mr. J. J. C. Kresps, is to persuade Japan to open its market to U.S. goods. He also referred to Japan's "historical unwillingness to shoulder its responsibilities under the open trading system," although conceding that attitudes were now changing.

The U.S. export mission, which Mrs. Kresps is accompanying, consists of 138 businessmen and trade officials including representatives of over 100 companies hoping to make sales in Japan. (Other mission members are concerned with investment promotion or with "explaining U.S. trade programs.")

American officials hope that the mission will be successful enough to convince the U.S. business community that the Japanese market is now "open" and that the trade gap can be narrowed by expanding U.S. exports rather than reducing Japanese imports from Japan. Optimism among U.S. officials is that this will really be the case, anything like its present state, the U.S. Commerce Secretary, Mr. J. J. C. Kresps, declared in Tokyo today.

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PUK joins Hyundai in Malaysia

By David White
PARIS, Oct. 3.
FRANCE'S PECHINEY Ugine Kuhlmann group and the leading South Korean industrial concern Hyundai Heavy Industries have signed a preliminary agreement on an ambitious aluminium project in Malaysia.

Investment in the project, including a gas-fired power plant, is estimated at \$700m, making it one of Malaysia's most important industrial ventures.

Under the agreement, signed three weeks ago but only made public here today, Aluminium Pechiney, a subsidiary of the French group, plans to conclude feasibility studies in co-operation with the South Korean company by March next year.

If the project goes ahead, the aluminium reduction plant is expected to start operating in late 1983 with an initial production capacity of 90,000 tonnes a year.

The state government of Sabah, where the complex is to be sited, would share in the investment cost of the reduction plant and be responsible for the power plant, due to have a capacity of between 200 and 300 MW.

The power plant would use offshore natural gas, for which gathering facilities would also have to be built under the investment plan. Preliminary feasibility studies are already complete.

Aluminium Pechiney, which holds a leading place among European aluminium producers, already has a joint venture with Hyundai in a plant in South Korea.

European petrochemical industry urged to invest £6bn in oil-based feedstocks

BY SUE CAMERON
MONTE CARLO, Oct. 3.
A TOTAL of 35 new catalytic crackers—costing £160m each—must be built in Europe by 1985 if petrochemical companies are to be assured of an adequate supply of oil-based feedstocks until the beginning of the next century, Dr. Ken Geddes, of BP Chemicals, said today.

Catalytic crackers are refinery units which produce naphtha and other light fuels.

Dr. Geddes told delegates at the European Petrochemical Association conference in Monte Carlo that "the industry must accept the prospect of significant increases in the price of petrochemical feedstocks as part of its contribution" towards the £5.9bn capital cost of the crackers.

He warned chemical companies that this could have repercussions on the size and growth rates of their markets.

Dr. Geddes, reading from a paper written by Mr. Peter Walter, chairman of BP Chemicals, said the extra catalytic crackers would be needed to lighten the oil barrel and so increase production of petrochemical feedstocks. At present most oil refineries are more geared to the heavy end of the barrel which is used for fuels.

He added that adequate feedstock supplies would depend partly on the ability and willingness of the petrochemical industry "to bid away the oil from the primarily fuel outlets."

If oil production did peak in the mid-80s, world energy demand would have to be met increasingly from natural gas, coal and uranium, so that available oil could be devoted to the needs of transport and petrochemicals. These would find the alternatives to oil less economic, and not only on rewarding volume selling which led to lack of profitability—a "massive leak in the petrochemical dyke, draining off our vitality."

European producers of bulk chemicals should concentrate on overseas investment and on expanding production of higher-priced specialty chemicals such as pharmaceuticals and agrochemicals, Dr. Gunter Metz, director of Hoechst, told the conference. He added that to offset the weaker growth in Western Europe, investments should be concentrated in the U.S., South America, Australia and South East Asia.

Gen. A arrested in Brazil

Gen. A. was arrested in Brazil on charges of corruption and misuse of power.

HK mass transit awards

TOKYO, Oct. 3.
TWO JAPANESE companies have won separate contracts to build a 10km second phase of the Prince Edward Road Mass Transit Railway in Hong Kong.

The two Japanese companies involved, Nishimatsu Construction and Kumagai Gumi, said they will build tunnels, a station and lay tracks over 3.5km of the 10km second phase of the project.

Chrysler-Europe takeover hits Mitsubishi exports

BY YOKO SHIBATA
TOKYO, Oct. 3.
PEUGEOT-CITROEN'S proposed takeover of Chrysler's European operation has had a considerable impact on Mitsubishi Motors, which depends for about 60 per cent of its exports on Chrysler's sales network.

Mitsubishi sells all its exports to the U.S. through Chrysler's U.S. distribution channels, and sells to the Middle East, Latin America and Africa through Chrysler's overseas sales outlets, Chrysler International SA (CISA). Chrysler's massive pull-back from European interests involves the possibility of its Chrysler International SA operation will bring about a considerable sales reduction for Mitsubishi Motors.

Mitsubishi also shows undisguised concern over the possibility that Peugeot-Citroen may sell its small cars in the U.S. through Chrysler's sales network.

In addition, after its retreat from the troubled European operation, Chrysler is believed to be exerting itself in production and sales of its own sub-compact cars, which have already entered competition with Mitsubishi's small cars.

Mitsubishi Motors had a tie-up relationship with Chrysler in 1971, on a basis that "Mitsubishi supplies small vehicles which will be marketed through the sales networks of Chrysler, specialising in large vehicles."

This tie-up boosted Mitsubishi's exports from 32,000 vehicles in 1970 to 98,000 vehicles in the year after the tie-up. The company exported 320,000 vehicles last year, and 430,000 vehicles are planned to be sold abroad this year.

However, Mitsubishi has begun to suffer a sizeable decline in the U.S. market since the beginning of this year, down 26.2 per cent in the first eight months from the same period last year.

Mitsubishi's sales setbacks in the U.S. coincided with the introduction of Chrysler's own small vehicles Omni and Horizon at the beginning of this year. It is quite conceivable that Chrysler has given top priority to sales of its own small cars.

Mitsubishi Motors can't stand the present position of just looking at other car makers' good luck in the world's largest U.S. market with impotent envy, said Mr. Tokio Kubo, president of Mitsubishi Motors, before his departure for the U.S. via Western Europe.

Mitsubishi is even considering setting up its own sales network in the U.S. This will be proposed at a Chrysler-Mitsubishi summit meeting scheduled for the middle of October.

Singapore buses order

FINANCIAL TIMES REPORTER
A £2M order from Singapore for 100 double deck buses has been won by Leyland Vehicles, the B.L. subsidiary, after a 15-month trial period with 20 of its Atlantean re-engined models.

The contract is a considerable breakthrough for the British company, which has been trying to sell double deck buses to Singapore since 1975. The company is seeking to expand its range of overseas markets now that UK demand is levelling off and Singapore has been a prime target because road congestion puts a premium on the efficient use of space.

Leyland's single and double deck buses already account for nearly half the total fleet of 2,700 buses operated by Singapore Bus Service. The new vehicles, which include UK-supplied bodywork, will be delivered during 1979.

Leyland also announced another £4m-worth of orders for 225 single and double deck bus chassis from the West Indies and East Africa. The vehicles will be going to Jamaica, Kenya and Malawi.

Franco-Soviet talks

BY OUR OWN CORRESPONDENT
PARIS, Oct. 3.
HOPES FOR big French contracts in the Soviet Union have been raised here by Mr. Vladimir Kirillin, Soviet Deputy Premier.

Mr. Kirillin, in Paris for a two-day meeting of the Franco-Soviet "grand committee," said in a newspaper interview that France might soon sign a deal to supply oil production equipment.

Other contracts being discussed included telecommunications and computers — although Mr. Kirillin did not refer specifically to CII-Honeywell-Bull's interest in supplying Tass with a second computer following President Carter's veto barring Sperry Rand from fulfilling its order.

France and the Soviet Union had additionally exchanged information on experimental nuclear reactors, he said.

The French engineering group Technip is also believed to be in line for a gas recovery programme in Siberia, while there is talk of a PFR 3bn (£800m) aluminium plant in Siberia, which would involve Pechiney-Ugine Kuhlmann.

The talks take place against the background of a sharp fall in France's business with the Soviet Union. Franco-Soviet trade in the first six months of the year dropped to FF 5.5bn from FF 13bn in the same period last year.

Some French commentators have linked the sharp fall-off in trade relations — at a time when the West Germans, for instance, have increased their Soviet market — with political differences, particularly over French intervention in Africa and France's moves towards closer economic ties with China.

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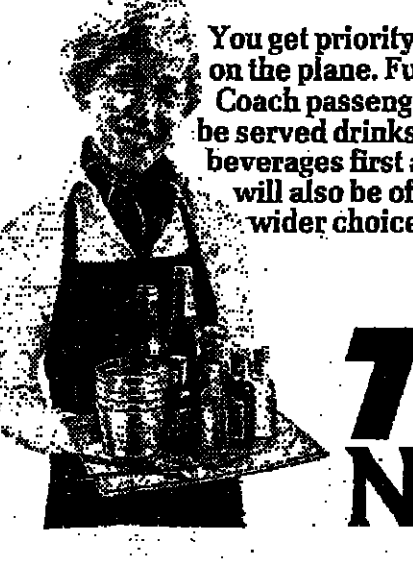
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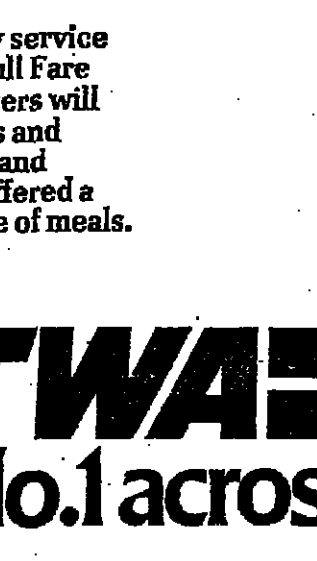
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HOME NEWS

Beecham drops £18m antibiotics plant for Ireland

BY KEVIN DONE

THE BEECHAM Group has dropped plans to build an £18m antibiotics plant in Ireland.

The Beecham Pharmaceuticals international division announced its plan to build an antibiotics plant at Ballyvaughan, near Shannon, County Clare in April last year. The factory would have created 250 jobs.

Planning permission was given by Clare County Council, but a group of local people objected to the proposed plant on environmental grounds.

After an unsuccessful appeal to the Irish Planning Board, they decided to take the case to the High Court to seek an injunction preventing Beecham from starting work on the site.

The High Court case has been pending for the past nine months, but no date for the hearing has been fixed.

Beecham said yesterday that it could not afford to wait any longer. Production at existing factories had to be expanded urgently to meet growing demand for pharmaceutical products. "The requirements of the business leave no alternative," it said.

The original plan was to build an integrated pharmaceuticals factory including bulk production, formulation and packaging of antibiotics, such as semi-synthetic penicillins.

After the early delays, the plan for bulk production was dropped last November.

Beecham's decision will be a blow to the Irish Government, which has been particularly successful in recent years in attracting pharmaceutical companies to Ireland. Favourable tax regulations have made Ireland an

attractive place for export industries.

Beecham said yesterday that it had still to decide which factories would be expanded in other countries.

The international division, which was responsible for the Shannon project, has its major markets in Africa, the Middle East and the Far East. The company has some factories in these regions.

In the UK, it is already committed to a £41m capital spending programme over the next three years at its pharmaceutical factories in Worthing and Crawley, Sussex, and Irvine, Ayrshire.

Our Dublin correspondent writes: The plant would have been sited in one of Ireland's unemployment blackspots.

But Beecham's decision could have repercussions for the whole country. The Raybestos brake factory in Cork has still not found a site for dumping asbestos waste because of objections from local people.

The Industrial Development Authority fears that industrialists may be deterred from investing in Ireland if they feel they are going to face this kind of problem.

Residents' groups have already discovered how to exploit planning legislation to the full.

Posting dates

LAST posting dates for surface mail to reach Australia, New Zealand and other Far East countries in time for Christmas fall due next week. Parcels and packets should be posted by October 8, and letters and cards not later than October 11.

£300m pumped storage power station planned

BY RHYS DAVID

THE Central Electricity Generating Board is considering building a pumped storage power station for the 1990s at Tintwistle in the Peak District National Park, 13 miles east of Manchester.

The £300m scheme, which could take up to ten years to complete, would involve the use of two existing reservoirs in the Longdendale Valley and the building of a new reservoir on an adjoining plateau.

The plan is likely to run into substantial opposition from environmentalists anxious to prevent further development within the park. But the Board made it clear yesterday that no firm proposals were being brought forward at this stage.

The Board has invited the Peak Park Joint Planning Board to undertake a joint study of the implications of the development and its impact on the leisure and recreation in the area. The Board is likely to consider the invitation later this week.

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These two stations will meet the electricity grid's needs for instantly available extra supply at times of peak demand through the 1980s, but by 1990 further pumped storage capacity will be required.

Informal talks have already been held with the North West Water Authority to whom the reservoirs belong. These are likely to be followed by more detailed discussions on arrangements for joint use of water catchment in the area for public supply and pumped storage.

The pumped storage system provides the electricity industry with one of its most efficient means of turning on extra supplies to meet peak demand. This is done by pumping water from a lower reservoir to one at a much higher level when demand is low, and creating a bank of stored energy when

there is surplus power, such as during the night.

The water is then returned the following day during peak demand to the lower reservoir, driving water turbines and generating electricity in the course of the transfer.

The generating Board already operates one small 360 MW pumped storage station at Ffestiniog in North Wales, and is expecting to complete the building of a much bigger 1800 MW station on the site of a former slate quarry at Dinorwic, also in North Wales, by the early 1980s.

Ideal base

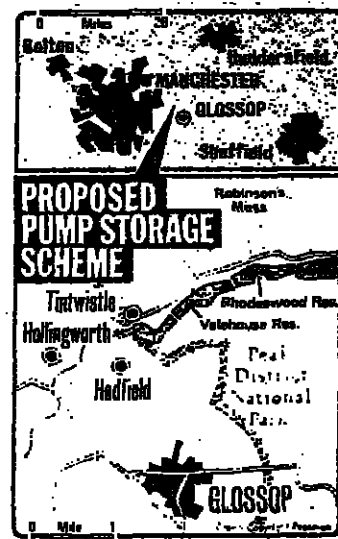
Unveiling the Board's tentative plan in Manchester yesterday, Mr Len Nash, Northern Station planning engineer, said the Tintwistle site met a number of requirements essential to the scheme.

The valley already had five major reservoirs within it, and its banks rose sharply to a high plateau providing an ideal base for the new upper reservoir.

The scheme would also be able to take advantage of existing major transmission lines running through the valley, and would be close to the major load centres of the North West. The Board had not yet decided the electricity generating capacity of the scheme, but it is thinking in terms of between 1,200 MW and 1,800 MW.

If the North West Water Authority agrees to co-operate, the scheme would involve linking two existing reservoirs in the Longdendale Valley, to form the lower pumped storage reservoir.

The new merged lake would have a water area probably 50 per cent to 75 per cent greater than the 50 hectares of the existing two reservoirs, and some loss of agricultural land already



owned by the water authority would be likely.

The upper reservoir would be created by excavation and the building of an embankment. It would have a surface area of about 55 hectares and would affect land now used for sport.

China clay sales rise

SALES OF china clay produced in the UK during the three months to end-August were 721,296 tonnes, about 44,000 tonnes up on the same three months last year.

The China Clay Association said yesterday that in the first eight months of this year there had been only a slight increase in sales to the domestic and export markets—over the same period last year.

More cuts sought in textile imports

By Our Bradford Correspondent

THE WOOL textile industry based in Yorkshire is seeking talks with Government Ministers to press for more import curbs.

The industry is particularly concerned about the large increase in imports of Italian cloth.

Mr Tom Hibbert, chairman of the Wool Textile delegation, yesterday outlined the problems to Bradford Textile Society.

In the first seven months of this year, imports of Italian cloth were 23.5m square metres, compared with 12.5m square metres last year.

Dialogue

MPs and union representatives would be in the delegation to see a Government Minister.

"It is now really beyond Government departments and our delegation it is now a matter for dialogue between Government to stop this."

"We have to convince our Government that they have to go to the Italian Government and say: 'Either stop this, or we shall do something'."

Artificial cigarettes fail sales targets, Celanese admits

BY OUR CONSUMER AFFAIRS CORRESPONDENT

A MAJOR U.S. supplier of tobacco substitutes admitted yesterday that sales of cigarettes containing artificial material had not reached their projected targets.

The U.S.-based Celanese Corporation, which manufactures the Cytrel brand of tobacco substitute, said that in spite of the failure of sales to meet targets, "we remain optimistic for the future of Cytrel."

Cytrel was blended with natural tobacco in some brands sold by Rothmans, British American Tobacco, and Gallaher in both the UK and Europe.

The launch of cigarettes containing tobacco substitutes met with a poor reception in the UK and prompted the big cigarette manufacturers to cut their commitment substantially.

The new smoking material was introduced to meet the seeming growing demand for a safer cigarette, but consumers were apparently reluctant to switch to the new product.

Cigarettes containing Cytrel were first launched in Germany in December 1974, then in Switzerland, and finally in the UK last year. Celanese claimed yesterday that in spite of the substantial adverse reaction when they were launched, it is becoming clear that a significant number of smokers in Europe have now accepted them," Celanese said yesterday.

The company estimated that total European sales of cigarettes blended with Cytrel were running at a rate of more than 1m a day.

The biggest sales are in the UK, although the company says that the figure is minute compared with total cigarette sales.

"Nonetheless, it indicates that the new cigarette has established a small following upon which manufacturers can build in the longer term," the company said.

'Unsatisfactory gap' in Ulster education

BY COLLEEN TOOMEY

BETTER COMMUNICATIONS between education authorities, industry, trade unions and voluntary training bodies are needed to narrow the unsatisfactory gap in education for Northern Ireland's 16-year-olds, according to a discussion paper published yesterday.

A working party set up last year by Lord Melchett, the Northern Ireland Minister of Education, suggests in the paper that an educational council, representative of each sector of the community, should be set up to debate educational policy issues.

It says about 28 per cent of children in Northern Ireland leave school at 16 without any GCE or CSE qualifications and the one who knows how many leave without a job to go to.

It recommends that secondary schools should have academic boards. These should report to governing bodies which are more representative of the community.

Ulster's serious social and economic problems, justifying special treatment and special measures, the report says, but palliatives are not enough.

Most of the 112 recommendations made by the seven-strong working party drawn from industry and schools are aimed at young people who are in the bottom half of the social and educational scale.

The working party expects that if the recommendations were carried out, they would alleviate the serious problem of youth unemployment in the province because, as the number of children who did well at school and went on to higher education increased, so the number of children in the unemployed ranks would ease.

Opportunities in Sixteen, Belfast SO, £3.00.

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Opportunities in Sixteen, Belfast SO, £3.00.

New SPD depot

SPD Distribution, Ltd. is streamlining distribution services in Bristol, South Wales and the South West with a new 100,000 sq ft warehouse at Thornbury, Avon. It will replace SPD depots at Cardiff, Swansea and Brunel Way, Bristol.

ROCLA PIPES has appointed Mr. W. A. King as managing director. He has been production manager for the company's St. Helen's and Newport Pagnell factories.

THE CRAFTS ADVISORY COMMITTEE announces that Lord Reilly (formerly Sir Paul Reilly), the Committee's chief executive and a member, has been elected president of the World Crafts Council in succession to Viscount Rodes.

KAISER ALUMINUM AND CHEMICAL CORPORATION, U.S. has elected Mr. Cornell C. Kaiser chairman of the Board, succeeding Mr. Edgar F. Kaiser who has been named chairman emeritus and honorary director for life. Mr. Kaiser, presently president and chief executive officer of the corporation, will continue in those responsibilities.

Mr. B. G. Adams, Mr. R. W. Bosshard, Mr. J. R. Charman, Mr. J. Dawning and Mr. R. A. F. Long have been made directors of A. L. STURGE (SYNDICATED MANAGEMENT).

Mr. P. A. G. O'Leary, deputy chairman, will retire from the Board of WESLEYAN AND GENERAL ASSURANCE SOCIETY, December 31. Mr. J. A. Alderson, vice-chairman, will be appointed deputy chairman from January 1. From the same date, Mr. R. L. Jones, director and general manager, will be appointed vice-chairman, but, after 48 years' service, will retire from the position of general manager on September 30, 1979. Mr. D. L. Robinson, director and deputy general manager, will be appointed managing director with effect from October 1.

Mr. Basil Saunders has been appointed director-general of ASLBE, succeeding Mr. Leslie Wilson.

Mr. James W. Denny, Jr. has been appointed managing director of OWENS CORNING FIBERGLAS CORP. at Athens, Greece.

Mr. Douglas Galloway has been appointed director of BASILDON DEVELOPMENT CORPORATION and will take up his new duties on January 1. He is, at present, chief architect-planner for the corporation and has been responsible for much of the planning and design of Basilidon.

Mr. Constantine N. Canonis has been named assistant vice-president in charge of BANKERS TRUST COMPANY'S representative office in Athens, Greece.

Mr. R. E. Seers, general sales manager, Phillips major appliances division has been appointed a director of HARDMAN ISHERWOOD, Leeds.

The Secretary of State for Transport has appointed Dr. A. W. Taylor as chairman of the newly-reconstituted TEES AND HARTLEPOOL PORT AUTHORITY, until February 28, 1981. This follows a Revision Order in May 1978 which brought into force a new con-

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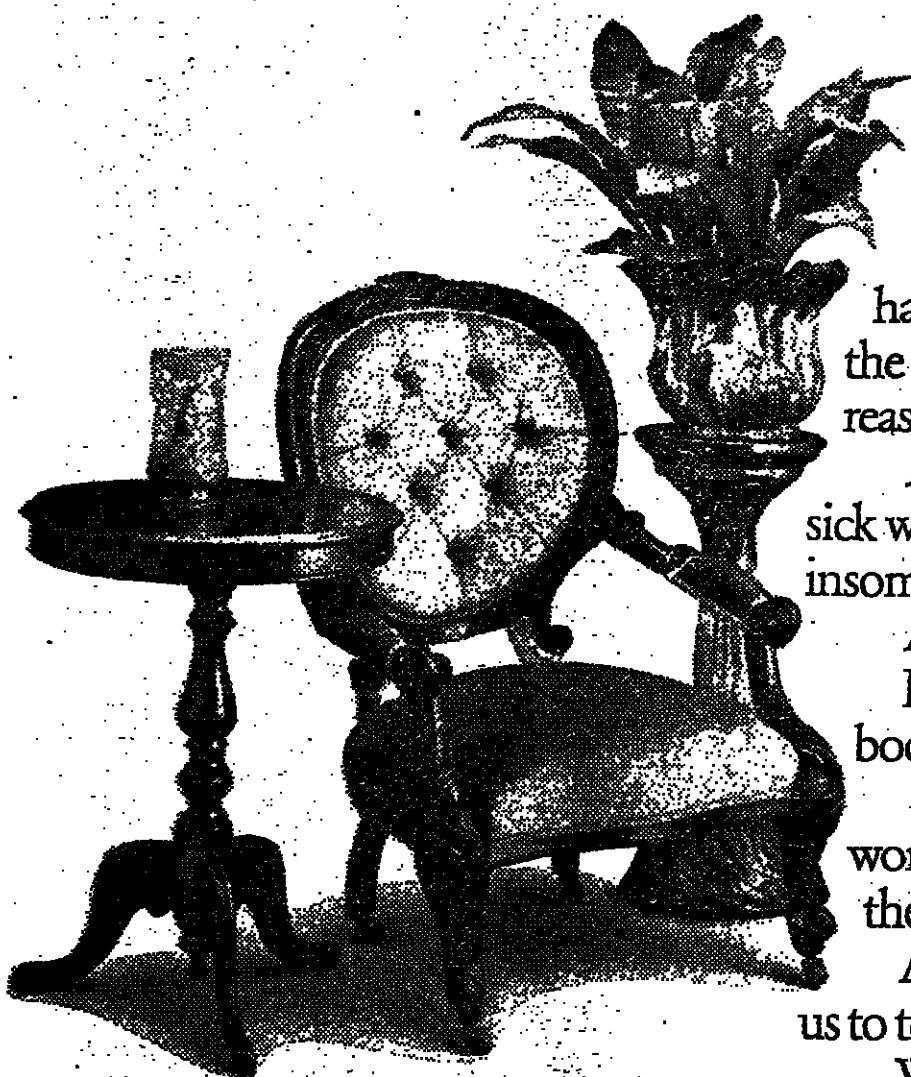
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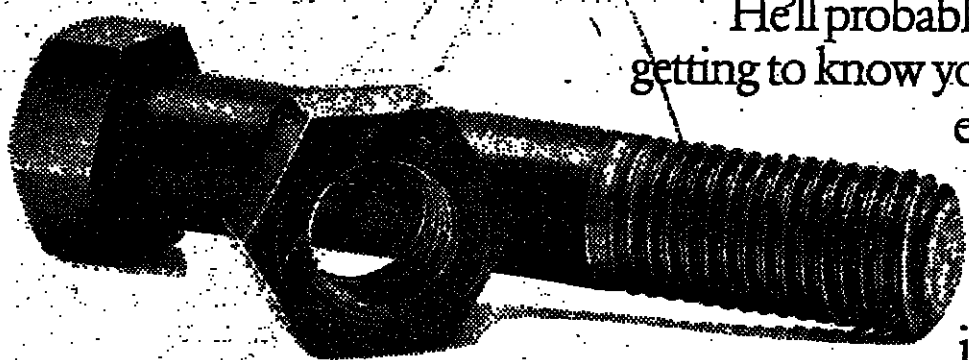
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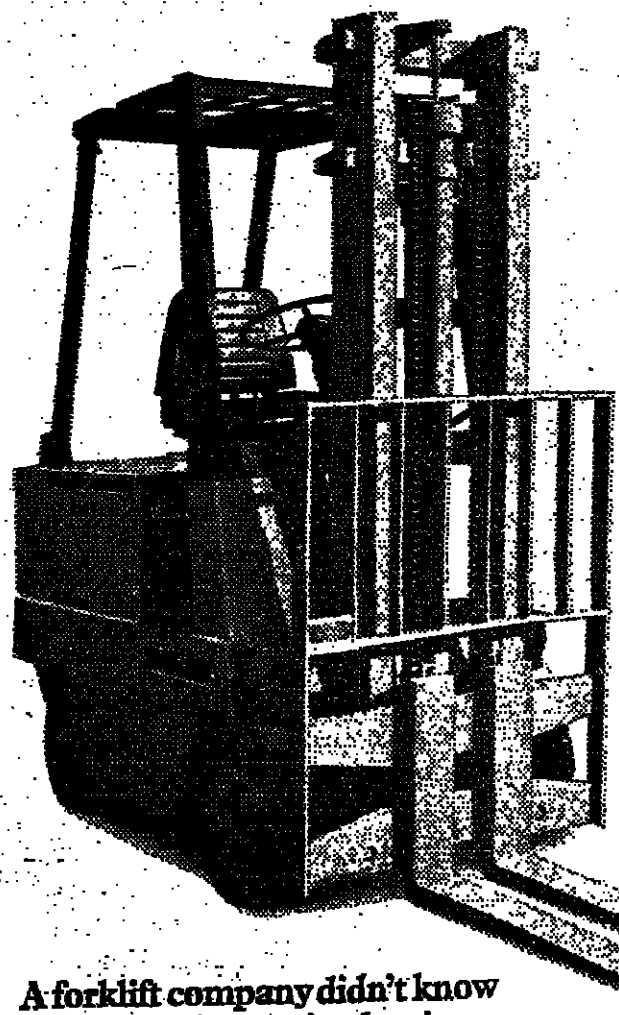
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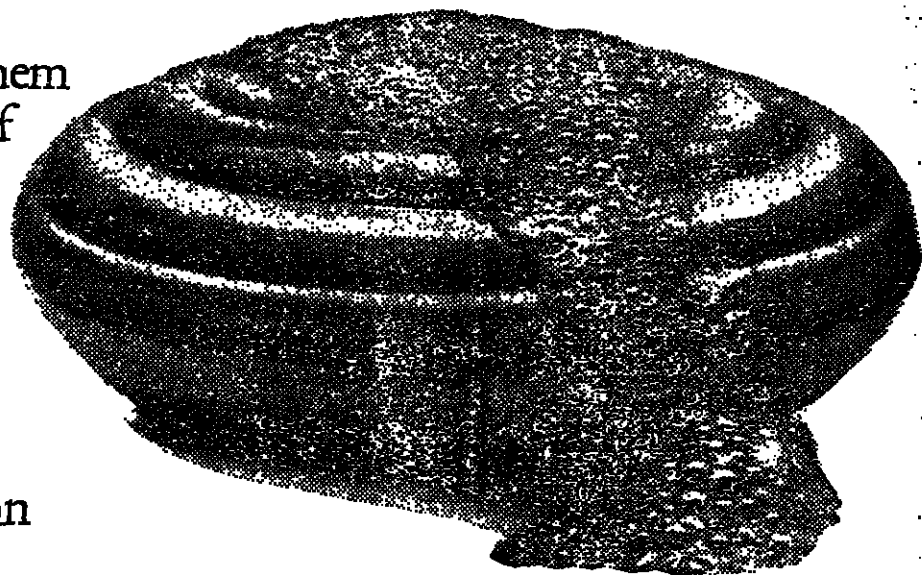
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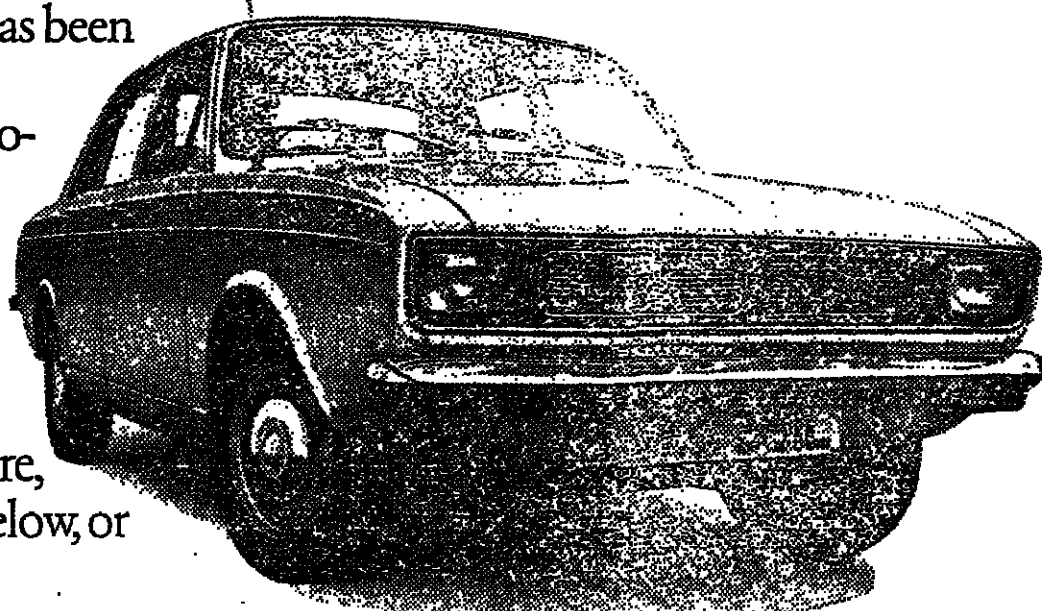
A forklift company didn't know whether the service, leasing or sales department was making a profit. We told them.



We showed a soap importer how to save hundreds of pounds a year by buying foreign currency ahead.



A leather goods firm was able to improve deliveries and cut costs by better stock control.



A car-hire firm didn't know whether it had made a profit or a loss until six months after the year end. We showed them how to judge monthly.

HOME NEWS

Ulster company talks with Renault

By Our Belfast Correspondent

THE DE LOREAN Motor Company, which is establishing a sports car assembly plant in Ulster, is hoping to set up production facilities in the province for two of its proposed suppliers.

Mr. John De Lorean, the 53-year-old former General Motors executive behind the new project, confirmed in general terms that his company was in negotiations with Renault of France.

His company's proposed new sports car will use Renault's V6 engine and transmission. It is transmission components upon which the talks are understood to centre.

More specifically, Mr. De Lorean confirmed that discussions were proceeding with Renault, the West German manufacturer of car seats.

"Our plan is to establish with them a joint venture in Northern Ireland where we would build their seats, probably not only for our cars but for other manufacturers in other places."

His company would soon announce the appointment of a managing director for the £85m Ulster operation. The man concerned is understood to have been with Chrysler Europe until now.

Terminal's total

A SHIPMENT of Swedish iron ore yesterday brought the amount of ore handled at the British Steel Corporation's terminal at Redcar on the south bank of the River Tees to 25m tonnes since the opening of the terminal in July 1973.

Duke's death duties challenged

A HIGH COURT judge was asked yesterday to rule that death duties of at least £1m should not be paid on the £4m estate of the fourth Duke of Westminster because he died of war wounds.

The duke's executors — his brother Robert, the fifth duke, and Mr. George Barry-King — are challenging the refusal of the Ministry of Defence to grant a war wound certificate which would exempt the estate from duty.

The duke, head of the richest family in England, owning 300 acres in Mayfair and Belgrave, died of cancer and blood poisoning in 1967, aged 60.

His executors claim that his death resulted from a wound he suffered while commanding a tank regiment in France in 1914.

Mr. John Vinelott, QC, for the executors, told Mr. Justice May that the Ministry had considered the case four times and each time refused to grant a certificate.

The Ministry had drawn "a veil of Crown privilege" around the deliberations leading to their refusal, keeping the executors

Severn Bridge may close for repairs

BY ROBIN REEVES, WELSH CORRESPONDENT

CONCERN IS growing in South Wales and the West Country that the Severn Bridge may have to be closed temporarily for another programme of repairs to its basic structure.

Mr. Roy Hughes, MP for Newport, Gwent, has asked Mr. William Rogers, the Minister of Transport, to issue a detailed statement on whether it is true that the bridge has two miles of cracked welded joints, and whether it is likely to be closed for a time.

A government official said yesterday that the Ministry of Transport would make a statement shortly on further repairs to the 12-year-old bridge.

It has already absorbed more than £1m in reconstruction and maintenance bills since it was opened in September 1966. The

cost of new repair work is put as high as £1m.

The official refused to say whether traffic-lane closures, responsible for serious disruption in the past, would be involved.

He described as "utter rubbish" speculation that the work might require complete closure of the bridge.

He was prepared to admit that he was "not an engineer and not in a position to state precisely how much disruption would be involved."

The bridge carries the M4 across the Severn Estuary and is a vital artery of the South Wales economy.

Built to carry four lanes of traffic, it has suffered a series of problems associated with its welded box girder design, which has resulted in restricted traffic flows for long periods.

A big programme of repairs was completed last May after a 15-month period of single-lane traffic each way.

During this work to correct weaknesses in the rocker assemblies which support the bridge, cracks were found in some of the welding.

The new repairs will evidently involve examining all the welds, many below the road surface. Thus, the work promises tearing up a large part of the road.

This prospect is blowing up only three weeks before the Transport Ministry is due to open a public inquiry into its plans for raising the bridge toll from 12p to 20p.

The proposal has two into Wales, which feels it will act as a disincentive in attracting new industry to the area.

Builder attacks mortgage queues

THE CHAIRMAN of Barratt Developments, Britain's largest house builders, accused the Government yesterday of ending abruptly the resurgence this year in the building industry and creating mortgage queues.

Mr. Laurie Barratt said in Glasgow that the Government had removed the competitive attraction of the building societies by deliberately making National Savings more attractive — channelling funds into Government coffers — "no doubt helping young couples embark on house purchase."

The building industry throughout the country was in a continuing state of crisis, suffering from the biggest depression since the last war. The public housing sector continued to stagnate, without the resources to improve the housing stock, and private housing completions last year had been the lowest for more than a decade.

The encouraging signs earlier this year that the private housing sector was about to reverse the decline with the help of the building societies had ceased because of Government interference in mortgage supply, and largely with the improvement of National Savings interest rates.

Damage caused to the private house-building sector through delays of up to five months in granting mortgages was adding a further £400 to £500 to the price of a new house because of cash-flow and interest problems.

"The recession will end when the Government withdraws their obstruction to the private housing sector," Mr. Barratt said.

Powell urges UK to withdraw from monetary system

BY RUBY CORNWELL, LOBBY STAFF

THE PROPOSED European Monetary System was a trap for Britain that would lead to France and Germany "winning by far the greatest battle so far in the war of conquest they are waging against the United Kingdom."

Mr. Enoch Powell said last night, Mr. Powell, speaking in Berkshire, carried his evangelical crusade against the Common Market to a new pitch of intensity.

British acceptance of the new currency arrangements, being worked out by the Nine would cost the country its political sovereignty and independence, he declared.

An "elephant pit" was being prepared for Britain into which the Government was blindly rushing.

Parliament had taken little notice of what was afoot and unless Britain speedily spelled out its refusal to take part, matters would be settled by December.

"Simpletons who live in a barley-sugar world are at liberty to imagine that our friends the French and our good, kind German allies have thought up yet another plan for affording assistance to us British in reducing inflation and expanding our trade and production."

"Those who know the real Nine when they meet in December, that seething cauldron of

of resentment, ambition and hostilities, understand very well what is afoot.

"Step by step, the once-proud offshore island is to be turned into a subordinate province."

The only dispute would be between France and Germany over the division of the spoils. But that argument was some way off, and for the time being the two nations could help each other to impose their common purpose.

A common currency, which would be set at the heart of the envisaged scheme, meant common government. "The one is meaningless and impossible without the other. Accept common money and you have accepted common government."

Mr. Powell's remarks leave no doubt of the enduring scorn of the Ulster Unionist MP for the Conservative Party, which he abandoned in February 1974, largely over its continuing relatively favourable attitude to the Common Market.

He predicted that the Tories would lamely approve a plan which would involve a substantial extra surrender of national sovereignty.

The European Monetary System was likely to be approved by heads of Government of the Nine when they meet in December.

£3.5m factory opened

BY RAY PERMAN, SCOTTISH CORRESPONDENT

A £3.5m FACTORY and administrative headquarters was opened yesterday in Livingston new town, West Lothian, yesterday by Abbey Chemicals.

The company, jointly owned by NL Industries of New York and Streetley of Nottingham-

shire, specialises in products for paint, ink, lubricants, and cosmetics.

Its development at Livingston, employing 85 people, brings together its manufacturing works previously at Stratford, east London, and offices, which were at Harrow.

Albright buys London site

BY KEVIN DONE

ALBRIGHT and Wilson, the phosphorus-based chemicals company, has bought a £3.5m site in east London for the expansion of its flavours and fragrances subsidiary, Bush Boake Allen.

The site on the Uplands Trading Estate in Walthamstow has been bought from Great Portland Estates. It is next to Bush Boake Allen's existing headquarters and factory.

Mr. Ron Mason, managing director of Bush Boake Allen, said there were no immediate plans for the site, but it would be an important element in long-term company growth.

Bush Boake Allen is the UK's largest manufacturer of flavours and fragrances, which are used by the food, drink, cosmetic and pharmaceutical industries.

It is expected to play an important part in the expansion of Albright and Wilson, which was taken over earlier this year by Tenneco, the U.S. conglomerate with interests in oil, gas, packaging, agriculture and insurance.

In August, Bush Boake Allen announced a £500,000 expansion plan for its factories in the UK and in the U.S. Last year it had operating profits of £8.6m on a turnover of \$45.6m.

Tory plea for new aid pledge to small companies

By John Elliott, Industrial Editor

A WARNING THAT the Conservative Party must make firm commitments to help small companies was issued yesterday by Mr. David Mitchell, chairman of the party's small business bureau.

This reflects growing concern among some Conservative activists that the party has not been specific enough about its plans. They fear that it is being overtaken in propaganda terms by Labour Government initiatives developed under Mr. Harold Lever, Chancellor of the Duchy of Lancaster.

Mr. Mitchell, MP for Basingstoke, said in Scotland last night that his party should not think the "votes of small businessmen are in the box already."

"Commitments are needed now, followed by action after the election."

Pledges had been made about changing general taxation, removing profit and price controls, and reducing Government statistical forms.

Although he did not spell them out, more positive commitments on other issues are also wanted by those representing small businessmen's interests.

These include reducing the impact of employment legislation and helping with direct financing problems, perhaps through a State-backed guarantee scheme for clearing bank loans.

Opel launches £9,500 luxury model

OPEL General Motors German subsidiary, today unveils two new models for the British market to compete with Jaguar, Mercedes and BMW.

They are the four-door luxury Senator costing £9,500 and two-door hatchback coupe version, the Opel Monza, with a price tag of £9,782.

Opel has now moved from the small and medium market, with a top price in the £5,000 range, to cars which will sell in Britain at £9,500 and above.

The new cars have a three-litre, six-cylinder engine equipped with fuel injection and electronic ignition which can take the Senator to a top speed of 125 mph, and the Monza to 133 mph.

They will be on display at the International Motor Show due to open in Birmingham later this month.

Controls aim for X-ray safety

BY JAMES McDONALD

A NEW comprehensive framework of controls on the use of ionising radiations — including X-rays — designed to give greater protection to workers and the public, even people using the dentist, is proposed by the Health and Safety Commission.

A consultative document issued yesterday by the Commission says that draft regulations are to be drawn up under the Health and Safety at Work Act to replace the present Ionising Radiations Regulations of 1968 and 1969, which apply only to factories.

The Commission said yesterday that, outside factories, only voluntary codes of practice were observed by others, such as in medicine and dentistry.

The new regulations proposed would lay down standards for the health protection of all workers against the danger of ionising radiations and for the public.

They would also lay down proper "dose" standards for people working with radiation. Comments on the document should be sent by January 3 to

Mr. R. P. Whitehead, Health and Safety Executive, 25 Chapel Street, London W1V.

A second consultative document is expected to be issued next summer and the commission hopes to see the new code on the statute book by mid-1980.

Ionising Radiations—Proposals for Provisions on Radiological Protection, Health and Safety Commission, SO, 50p.

Shire counties plan to study village decline

THE Association of County Councils has announced plans for a study on the decline of the village.

Mr. Gervas Walker, chairman of the association's policy committee and chairman of Avon County Council, said yesterday that the survey would examine the difficulties shire counties had in providing equitable services for townspeople and villagers.

The deprivation of rural areas had been made worse by the Government's decision in recent years to redirect rate support grants away from shire counties towards the large cities.

The hearing continues today.

Williams & Glyn's believes small businesses deserve all the help a bank can give

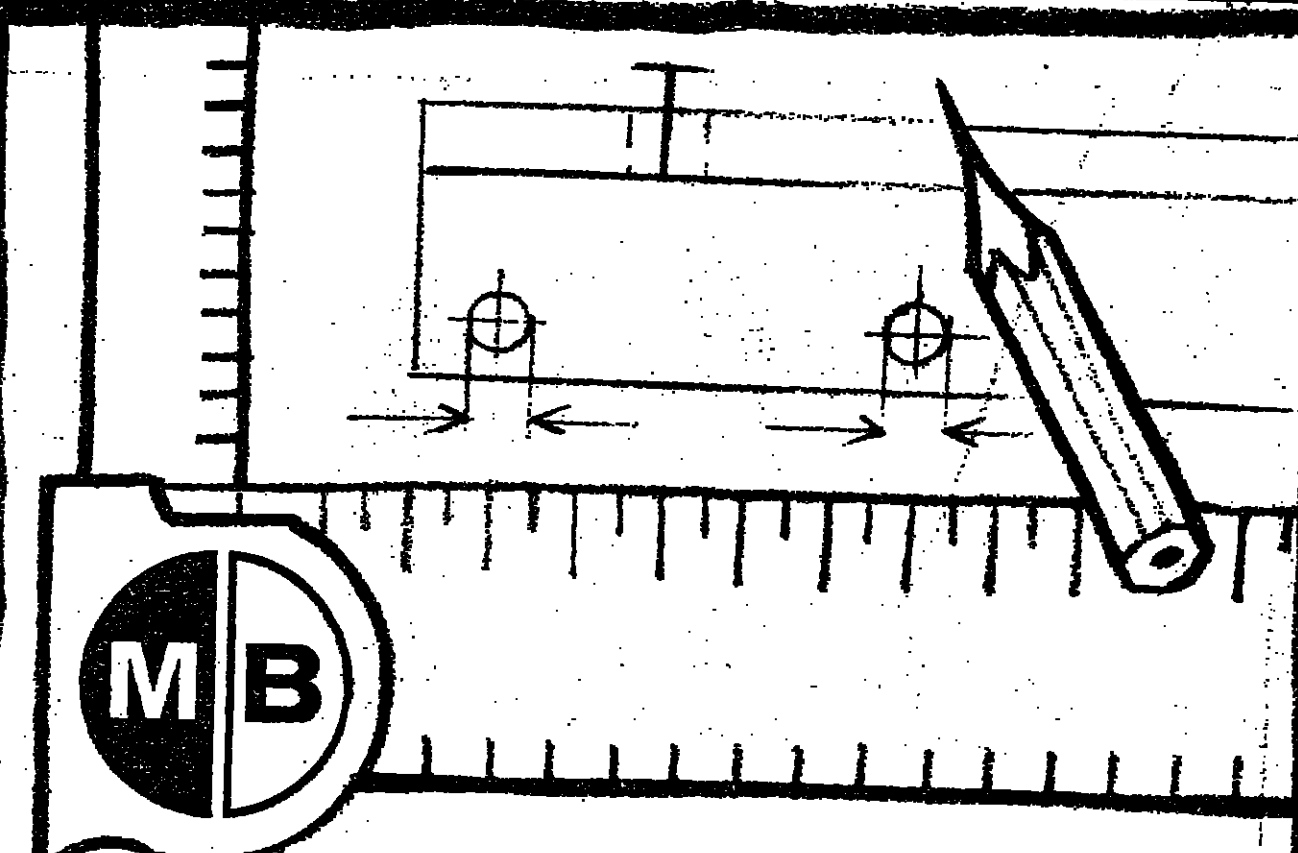
The small business may well need more service from a bank than a big one. The managing director is probably his own finance director and chief accountant, and he needs all the help a good bank can give. Williams & Glyn's is uniquely placed to give him that help because we believe that the amount of time a bank spends on a company's affairs should not be related to the size of its balance but to the size of the problem, or the opportunity.

We have made a point of gearing ourselves to handle the business of smaller and medium sized companies at least as carefully as the biggest. Our branches are kept to a realistic size so that we can allot more management time to individual accounts and we encourage managers to visit customers on their home ground in order to obtain a first hand understanding of their business. In short, we are prepared, should you wish us to do so, to involve ourselves in your business to a much greater extent than usual.

That's a higher degree of commitment than many banks undertake. But then Williams & Glyn's is a rather different kind of bank. Why not call in to see the Manager of your local branch. Or write to: Marketing Development Office, Williams & Glyn's Bank Ltd., New London Bridge House, 25 London Bridge Street, London SE1 9SX.

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- 3 Cash Flow Control**
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By-elections date set before vote on Queen's Speech

BY ROBERT CORNWELL, LOBBY STAFF

THE TWO outstanding by-elections, at Berwick and East Lothian, are set for October 26, just a few days before the Queen's Speech containing the Government's legislative programme for the next session.

A special insertion in the London Gazette makes clear that the Speaker, Mr. George Thomas, will move the writs for the two former Labour seats on Friday—in time for polling to take place in just over three weeks.

Mr. Joe Harper, MP, with a majority of 23,245 in an impressive Labour stronghold, the Berwick seat, which because of the death of the late MP, Prof. John Mackintosh, is marginal.

The Tories need a 2.9 per cent swing to capture it, a feat well within their grasp to judge from recent by-election results, even those in Scotland where Labour has fared better than in England.

Rowland allegations meet with silence

FINANCIAL TIMES REPORTER

THE FOREIGN OFFICE would make no comment yesterday on accusations by Mr. Rowland "Tiny" Rowland, chief executive of Lorch, the multinational trading group, that Dr. David Owen, Foreign Secretary, had tried to persuade him to withdraw the company's legal action against the major oil companies for damages over the supply of oil to Rhodesia.

Mr. Rowland alleges that when Lorch continued with its action, the Government withheld a statement from the Attorney General's office clearing the company of any criminal implications after an investigation into its affairs by the Department of Trade.

Mr. Rowland made the accusations in a letter sent to Dr. Owen on September 25. The text of this was released to the Press by Mr. Rowland this week, together with a reply by Mr. G. H. Walden, Dr. Owen's private secretary.

Mr. Rowland wrote that at a meeting with Dr. Owen in July last year, a few months after the establishment of the Bingham inquiry into oil sanctions busting—the two had discussed the oil supply to Rhodesia and Lorch's writs against the major oil companies over that supply.

It had been Dr. Owen's polite but strong contention that the case ought to be withdrawn and settled by other means.

Mr. Rowland said that Dr. Owen had told him that "Lorch

itself would be one of the victims if the company persisted with our legal action against the oil companies, in that all international companies would be wounded by public discussion of the contents of documents received by the Foreign Office.

Mr. Rowland went on to link this alleged remark by Dr. Owen to the Tanzanian Government's decision earlier this year to expect Lorch on charges of sanctions-busting and meddling in Rhodesian politics. Mr. Walden denied the link.

Replying to these accusations, Mr. Walden said in his letter that Mr. Rowland's account of his meeting with the Foreign Secretary "does not correspond with the facts."

The meeting had been intended to urge Mr. Rowland to make evidence in his possession available to the Bingham inquiry. Dr. Owen's sole purpose had been to ensure that Mr. Bingham had all the relevant information so there would not be any possible charge of cover-up.

Closure threat

TEACHERS AT a school for difficult children that faces closure are preparing to take a salary cut in an attempt to keep it open.

The White Lion Street Free School in Islington, London, is unlikely to survive if the Inner London Education Authority refuses to give a grant.

Elizabethan goblet sold for £75,000

A GOBLET from the reign of Elizabeth I was sold at Christie's yesterday for £75,000, a world record auction price for a piece of glassware.

The presentation goblet, 6½ ins tall, was discovered in a hatbox in an English country house. It is dated 1584 and is the work of the celebrated Venetian, Giacomo Verzasini.

Heide Hubner, a dealer from Würzburg, West Germany, bought the glass, which had been expected to fetch £20,000.

The sale of English and Con-



Record breaking goblet

SALEROOM

BY JOHN FALDING

nnental glass realised a record £12,417.

The second highest price was £13,000 paid privately for a 17th century Nuremberg hausmalerei schwarzlot goblet by Hermann Benckert.

A sale of old master prints at

Christie's made £41,789, with an anonymous bidder paying £900 for an album of decorative prints after Nicholas Poussin and others.

Phillips and Harris bought a George III carved mahogany four poster bedstead for £2,100 in a Phillips furniture sale which totalled £38,100. The same buyer paid £1,600 for a George III mahogany partners' desk.

A Phillips book sale totalled £22,302, and Welford paid £1,350 for two 1809 volumes of figures of plants in a Gardeners' Dictionary by Philip Miller. A jewellery

sale realised £35,520.

European links vital to motor industry

FINANCIAL TIMES REPORTER

THE SUCCESS of the British motor industry depends upon developing European links, Sir Barrie Heath, president of the Society of Motor Manufacturers and Traders, said last night.

His speech, made in Paris on the eve of the Motor Show there, comes only a few days after Lucas, the UK components company, was thwarted in its bid for Ducellier of France by an apparent blocking action from the French Government.

But Sir Barrie, who is also head of GKN, the largest British engineering and components company, did not refer to this setback for Britain's components industry.

"Further steps forward have been made this year, and are in progress towards integration and

co-operation across what, not long ago, were real trade and political boundaries," he said.

Our trade with Europe, particularly in the vehicle component area, was increasing rapidly as was direct investment in the motor components business.

Failure

The British vehicle industry's failure to satisfy its customers in the UK this year could well "erode its long-term competitive position."

Vehicle production in Britain had risen only marginally this year in spite of large increases in car and commercial vehicle sales.

Car output was up 1.3 per cent compared with a 2.3 per cent

growth in the market during the first eight months, and commercial vehicle production rose by only 0.6 per cent, against a 17 per cent sales growth.

"It would be foolhardy of me, or anybody from Britain, to underestimate the damage which has been done to our industry over the past five years by low productivity and poor industrial relations which even now are showing only marginal improvement."

The British industry still earned a massive surplus on its exports. Barely a car or commercial vehicle maker in the world produced a vehicle which has not any British original equipment or British licensed equipment, said Sir Barrie.

Marks enter music field

BY PAUL TAYLOR

MARKS AND SPENCER is to enter the music field on Monday when a range of specially made records and cassettes go on sale in 20 selected stores.

If successful the scheme, with 44 recordings by star names, priced at £2.50, will be extended to more of the company's 253 stores.

The trial range spans the musical spectrum from rock, pop and jazz to classical. The company emphasises that the records and cassettes "are not a budget range."

They have been made exclusively for the company by

leading record manufacturers such as CBS, Pye, Phonogram and Polydor.

To promote the new range Marks is building music centres in the 20 selected stores. As with its other goods, any recording with an unbroken seal can be returned for a refund.

The music business is not a new departure for Marks. Fifty years ago the stores had a steady turnover in both gramophone records and sheet music.

Its decision to re-enter the field is expected to put more pressure on some specialist record stores which have already

suffered from other multiple stores moving in and offering substantial discounts.

The stores selected include

five in London. The company said that there was no fixed period for the trial run. It would introduce Christmas carols to the range.

Eadie for U.S.

MR. ALEX EADIE, the Minister with special responsibility for the coal industry at the Department of Energy, will visit Canada and the U.S. on Sunday for five days.

Tradition break by Sun Alliance

By Eric Short

SUN ALLIANCE and London Insurance is lifting the basic premium rates on contents insurance, thereby breaking with a tradition going back over 50 years.

The basic premium rate for contents on an indemnity basis, under which claims are based on the current value of the items concerned, has been 25p per cent (five shillings in pre-decimal currency) since the early 1920s.

Now, Sun Alliance has increased this basic rate to 30p per cent for new contracts from November 1, though it is not changing the rate at present for existing policies.

The company is also lifting the basic rate on its replacement contract, where the claim value is based on the cost of a new item, from 30p per cent to 35p per cent. Again the 30p rate has been standard since the "new for old" contracts were introduced over a decade ago.

These are just basic rates applicable to the lowest rated areas and all other rates charged by the company stem from them. The company is completely restructuring its rating system and much higher increases are being made for other districts.

For instance, in the highest rating areas of central and north-west London, the indemnity rate is increased from 50p to 75p per cent and the replacement rate from 55p to 80p per cent.

Sun Alliance recorded an underwriting loss of £10.5m in the first six months of this year, much of it coming from a poor experience on its UK household account.

European Ferries places £50m order in Germany

BY IAN HARGREAVES, SHIPPING CORRESPONDENT

EUROPEAN FERRIES confirmed yesterday that a £50m order for three cross-Channel ferries is to be placed with a German shipyard rather than a British one.

Mr. Keith Wickenden, chairman of the UK-based ferry company, said: "In June, we stated that the order would be placed in Britain, provided that we received a competitive price tender and delivery date from British shipbuilders."

"In the event, neither of our requirements was met and we feel it is a pity that the Government was not able to support British shipbuilders to enable them to quote competitively to a British company as it did recently to Polish shipowners."

The price from British Shipbuilders, the state-owned corporation, was apparently about 10 per cent higher than the bid from the German yard, Schichau Unterweser of Bremerhaven.

However, this difference conceals the fact that the British tender also benefited from a large subsidy, probably about £12m, from the Government's Shipbuilding Intervention fund, creating a 35 per cent gap between the German and British quotes.

Although Germany officially has no equivalent to Britain's subsidy fund, it appears that the yard has been permitted to take on the contract at a substantial loss on the basis of an understanding with the German Government that the resultant losses will be covered. German shipyards have talked frequently

about the need to buy in work in this way.

British Shipbuilders was also unable to meet an extremely tight delivery programme, which involves launching the first ship next summer and commissioning all three vessels on the Dover-Calais route during 1980.

Shortages

Cammell Laird of Liverpool was British Shipbuilders' preferred yard for the order, but having recently started work on a Navy frigate, it apparently could not guarantee the European Ferries deadlines.

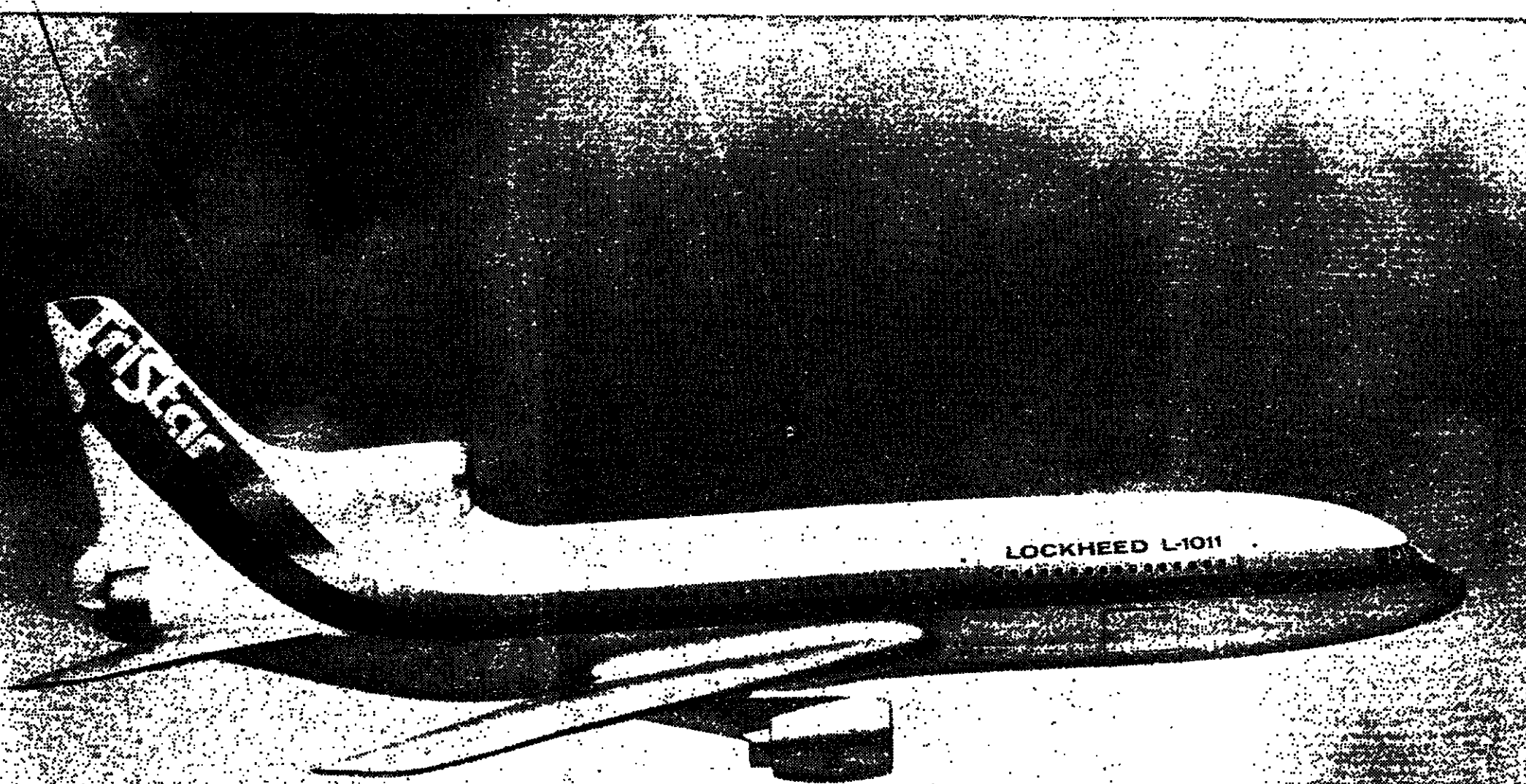
Although some British Shipbuilders' yards are facing acute shortages of work and imminent redundancies, their position is stronger as a whole than the German yards, where orders taken so far for next year will account for only one third of the industry's capacity.

Yesterday's announcement may also have political reverberations because union leaders in shipbuilding are committed to increasing the pressure on British owners to order their ships from British yards.

As prospective Conservative Parliamentary candidate for Dorking, Mr. Wickenden can expect strong attacks from these quarters.

Each ferry will be able to carry 1,300 passengers and 250 cars or an equivalent amount of lorries. Although Mr. Wickenden has spoken of a total ordering programme of seven ships costing £100m, the company has no immediate plans to place further contracts.

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That airline will be operating the L-1011-500 in the near future. There are a number of reasons the L-1011-500 offers airlines such an advantage.

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higher plane mile costs.

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HOME NEWS

Tolley takes over from Sir Derek as management chief

FINANCIAL TIMES REPORTER

MR LESLIE TOLLEY takes over the chairmanship of the British Institute of Management at its annual meeting today. He succeeds Sir Derek Ezra, chairman of the National Coal Board, who has been chairman of the institute's council for two years. Mr. Tolley, aged 64, is chairman of Renold, the Midlands engineering company which specialises in power transmission equipment. He is also chairman of Fodens, the truck makers and Francis Shaw, the plastics and rubber company in which the National Enterprise Board has a 30 per cent equity stake. He left school at 16 to become an apprentice production engineer at Morris Motors in Oxford, and had become one of the company's youngest production managers by the age of 25. When he left the company in 1962, he was general manager of the Nuffield body division in Birmingham.

Taxation 'crushing British enterprise'

FINANCIAL TIMES REPORTER

A STRONG attack on Britain as an example of a society which has deliberately reduced the scope for the entrepreneur was made yesterday by Sir James Goldsmith, chairman of Cavenham, the multinational food group. "Confiscatory taxation and the elimination of incentive have progressively destroyed the existing entrepreneurial sector and discouraged the creation of new enterprise," he told the 26th congress of the International Chamber of Commerce in Florida. "Bureaucratic appropriation of a man's natural responsibilities from the cradle to the coffin had replaced the spirit of proud and independent achievement" with the sickly sweet atmosphere of a rotting cocoon. "It is no coincidence that in the British steel industry the out-

put per man is less than a quarter of its American counterpart, and about one-sixth of that in Japan. "Not in the car industry, where with the same equipment, output per man is about half that achieved in other European countries. "British industry had become a cripple and in the past 25 years Britain's share of world trade had been reduced from 25 per cent to 8 per cent. "The income of the average Englishman, not long ago among the highest in the world, has dropped behind that of Iceland, Finland and is being caught up by Spain and Greece. "The overwhelming majority in Britain agree with much of what I have said. They are ready to embark on a fundamental counter-revolution which, if successful, will lead Britain back to greatness."

FT CONFERENCE ON INTERNATIONAL TRANSPORT

Road and rail urged to attack congestion

BY IAN HARGREAVES, TRANSPORT CORRESPONDENT

AN APPEAL for road transport and railway interests to unite in a common campaign for investment to remove urban congestion was made yesterday by Mr. Peter Thompson, chief executive of the National Freight Corporation. He told the international transport conference organised by the Chartered Institute of Transport and the Financial Times that this area of spending had been neglected by Government. It was in the interests of all transport organisations to see something done about it. Even where goods were trucked by rail, they had to be delivered to homes, factories and shops by lorry. The railways ought not to be fighting against an increase in maximum lorry weights in the UK as was currently proposed within the EEC, he said. Freightliners, the container-carrying company taken over by British Rail from the freight corporation in August, was handicapped considerably by the existing 32-ton weight restriction, which meant a 20 per cent loss in payload on the UK leg of an international journey. An export container travelling, say, 7,000 miles to its final destination may be moved at a 20 per cent higher cost through-out simply because of the first 50 miles of the journey in the UK.

Mr. Thompson dismissed as sterile the argument about the relative contribution of road and rail freight industries towards their infrastructure costs. Rail was usually competitive with road only for distances of more than 200 miles and these journeys accounted for only 2.8 per cent of all present road freight movements, or 18.7 per cent of ton-kilometres. Even if half of this business were transferred to rail, it would reduce the total goods vehicle fleet by only 1.2 per cent and therefore have little environmental benefit. British Rail's argument that the heaviest lorries should pay an extra £500 a year in tax to meet their full infrastructure costs would have, if successful, an insignificant effect on road hauliers' costs and therefore, do little to improve rail freight's competitiveness. It would increase the average cost for moving a ton of freight in a 32-ton lorry by only 12.3p on an existing average of £5.80. There would be a continued growth in roll-on roll-off freight business at the expense of containerised movement. Within the next decade, he predicted, there would be more services on the North Atlantic. Road haulage remained the most efficient way of moving the majority of the nation's goods. Mr. Thompson said, and it was not worth disturbing the costs of all road transport to achieve a marginal transfer to rail. The lorry, meanwhile, had to become less environmentally intrusive but Government would have to balance the cost of this objective because it would inevitably involve higher retail prices.

Droicce

Earlier, Sir Peter Parker, British Rail chairman, praised Freightliners for its role in combining road and rail transport where each was more efficient. There was need for the different kinds of transport to work together to meet the needs of passengers and of industry. For the London computer services, where standards had fallen to unacceptable levels, British Rail wanted Government backing for a charter with commitments to future spending and levels of service. On freight, Sir Peter spoke in favour of establishing a "little Noddy" committee for surface transport—a possibility raised in

last year's Transport White Paper. Not enough weight had been given to transport in drawing up the national industrial strategy.

His paper to the conference should be taken as "a declaration of interdependence" with the other transport industries in meeting the nation's needs, he said.

A view on the most troubled sector of the transport industries, shipping, came from Mr. Ronald P. Aukner, chairman of the Oslo-based Aukner and Neuman consultancy company and also a director of European Ferries. Shipping companies increasingly would have to find ways of integrating, operationally and even financially, with other ship-owners and with land-based parts of the transport chain, he said. It was vital that shipowners continued through a period of deep financial crisis to look forward and in he decisive and creative. It would show a positive state of mind "appealing to both creditors and financial institutions."

CONTRACTS

Murphy Brothers wins £7m opencast order

THE NATIONAL COAL BOARD has awarded a contract worth about £7m to Murphy Brothers for an opencast coal site with programme input equipment, an antenna system, vhf link and spares for installation in Sierra Leone.

The board has estimated that the site will yield 358,000 tonnes of anthracite from Tredegar, South Wales.

MARCONI COMMUNICATION SYSTEMS, a GEC-Marconi Electronics company, has received



Mr. Peter Thompson, National Freight Corporation's chief executive (left) talking to Sir Humphrey Browne, chairman of British Transport Docks Board (centre) and Mr. Asad Y. Nasr, chairman of Middle East Airlines

Larger operational units offered a more secure position in the market, a wider spread of trading interests, stronger financial support, diffusion of risk and better prospects for developing management and specialist skills. Mr. Asad Y. Nasr, chairman of Middle East Airlines, warned against the rush for large-capacity aircraft based on oversimplistic assumptions about productivity gains. He presented figures to show that obvious gains in crew costs and navigation equipment could be offset easily by the disadvantages of uneven workload on the ground and reduced frequency of service. The trend by manu-

facturers towards smaller aircraft was "a healthy and encouraging sign." The afternoon session was taken up with papers on manpower productivity. Prof. Karl M. Ruppenthal, director of the Centre for Transportation Studies at the University of British Columbia, pointed to falling productivity in Canadian airlines. He said the decline, to the 1962 level, had resulted from over-generous pay settlements during the period of rising productivity. The problems of State-owned industry responding to labour demands and tougher working rules by employees seeking extra remuneration for working unsocial hours. Mr. David Bowick, vice-chairman of British Rail, said that the key issue was to motivate employees by stimulating their identification with the company's objectives. British Rail had had outstanding success in implementing some changes and much less satisfactory results in other cases. The search for an industry consensus in tackling major issues, required conceptual thinking from employees. One of the problems was the UK trade unions were "heavy on negotiating skills but light on problem-solving skills."

to accommodate turbine-driven compressor equipment. The enclosures are designed to give a noise level of 85 dBA at 1 metre.

Further contracts have been awarded to the comfort control group of LANDIS AND GYR, North Acton, London, to supply and install heating and ventilating controls and panels at Courage's 55m Berkshire Brewery. These involve installation of heating, controls in the energy centre, and the supply and installation of automatic controls and panels in the welfare block and brew house. This brings the total value of work undertaken by Landis and Gyr at the new brewery to £200,000.

A £500,000 order for noise control equipment has been placed with ACOUSTIC ENGINEERS MONITON TECHNIC by Ingersoll Rand. Destined for oil production platforms in the North Sea Valla field, the contract comprises six acoustic enclosures with associated inlet and exhaust silencers.

The Pertec Division of PERTEC CORPORATION has been awarded a seven-year contract by Digital Equipment Corporation (DEC) for the production of peripheral memory equipment, including Pertec magnetic media drives, spare parts and service. It is estimated that equipment valued in excess of \$10m will be delivered in the first full year of production. Delivery is scheduled to begin in October, 1978.

A £200,000 order has been placed by the Ministry of Defence with STANDARD TELEPHONES AND CABLES for type 1250 electronic telephone exchanges to be installed on Royal Naval vessels. Made by the special systems unit of STC's transmission division, Footscray, Kent, the complete exchange system is able to withstand the shock force of underwater explosions and ships' vibrations. The system underwent two years' operational evaluation trials before being accepted by the Admiralty for use on surface ships and submarines. At sea the fully automatic and unmanned telephone system is used for communication between cabins and compartments. In port it is also used for direct communications with naval bases and dockyard, and can be connected into private and public telephone networks.

The European Space Agency (ESA) has awarded MARCONI COMPUTER SERVICES a service contract worth nearly £1m for the production of data processing software at its operations centre (ESOC) in Darmstadt, West Germany. The service contract, which is intended to replace a number of "technical assistance" contracts, begins now and will

TENDERS ARE INVITED FOR 4,000 TONS OF SURPLUS STRUCTURAL STEEL

Shell UK offer for sale approximately 4000 tons of surplus structural steel in twenty five separate lots consisting of:

- Flat Bars - Plate
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The steel is stored in Glasgow and was originally ordered for North Sea drilling platforms now completed.

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Potential purchasers are invited to write for the detailed catalogue before 10.10.78.

Shell UK Materials Services, UMAS, Shell Mex House, P.O. Box 148, Strand, London WC2R 0DX.

RAUMA-REPOLA OY
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take pleasure in announcing the formation of their latest subsidiary in the United Kingdom:

RAUMA-REPOLA (ENGINEERING) LIMITED

to market the products of Rauma-Repola OY Heavy Engineering Division with special emphasis on the range of Lokomo Products, truck cranes and crushing equipment, as well as to market machinery to Chemical, Petrochemical and Offshore Industries. The maintenance factor for Lokomo Products has not been overlooked, and a repair depot with ample storage has been acquired.

The new Company will be found at: Finland House, 56, Haymarket, London SW1Y 4RN with another subsidiary, Rauma-Repola (UK) Limited, who market the timber products in this country.

The Chairman of Rauma-Repola (Engineering) Limited is Mr. K. Angervuori.

Don't miss the Overseas Christmas Post.

LATEST RECOMMENDED POSTING DATES

DESTINATION	PARCELS AND PACKETS		CHRISTMAS CARDS AND PRINTED PAPERS	LETTERS AND POSTCARDS
	SURFACE	AIR	SURFACE	AIR
Far East and Australasia	9 Oct	4 Dec	11 Oct	6 Dec
Middle & Near East	16 Oct	4 Dec	18 Oct	11 Dec
Africa (except North Africa)	16 Oct	4 Dec	18 Oct	6 Dec
Central & South America	1 Nov	4 Dec	3 Nov	6 Dec
Canada, USA & West Indies	1 Nov	4 Dec	6 Nov	4 Dec
Europe including Cyprus, Malta and North Africa	27 Nov	6 Dec	27 Nov	11 Dec

Please post before these dates if possible, and remember to address everything clearly.

It all helps the postman to get your Christmas greetings delivered in good time.

Christmas greetings always mean so much more when they're sent by post.

So when you think of your relatives and friends this Christmas, get the most from your post.

Our leaflet on latest recommended posting dates for Overseas Christmas Mail is available free.

It tells you all you want to know. You're sure to find it useful.

Please collect a copy from your post office.

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Recommended last posting dates

TGWU members told to black Ford work

By ALAN PIKE, LABOUR CORRESPONDENT

THE TRANSPORT and General Workers' Union London regional office yesterday instructed all members to black work connected with Ford, where the national strike by 97,000 manual workers is now in its second week.

This move increases efforts by the unions to impose the most rigid possible sanctions on the company. Movements of completed cars, factories and imported vehicles at ports have already been halted by sympathetic action from delivery drivers and dockers.

It is expected that the TGWU will tomorrow join other unions and declare the Ford strike official.

Shop stewards and officials

representing the 24,500 workers at the company's Dagenham complex met yesterday to review the progress of the strike. A topic of discussion was the possible impact of Ford's negotiating position of Monday's Conference of the 5 per cent pay guidelines.

While Ford will clearly watch carefully the outcome of discussions between TUC leaders and the Government which it is expected will follow the conference, the company apparently has no immediate plans to seek further talks with the unions.

Last week union negotiators turned down a suggestion that there should be exploratory talks

and said there was no point in meeting the company until it moved from the 5 per cent limit.

Nick Garnett writes: The first formal talks between the TGWU and the oil companies on this year's tanker drivers' pay claim got underway this week with negotiations at Shell.

Apart from responding to the drivers' 30-40 per cent claim, Shell, BP and Texaco are also involved in joint management-union talks on productivity. Productivity proposals for Shell drivers, based on greater flexibility, shift and manning changes, appear to be the most advanced.

Although the company's shop stewards have still to discuss the proposals, some senior stewards have unofficially placed a price of £5,500-a-year basic salary, including an element for the coming pay settlement, on the proposals.

Midlands unions to step up pay protest

By ARTHUR SMITH, MIDLANDS CORRESPONDENT

TRADE UNIONS in the West Midlands have called a conference for Saturday to step up the campaign against the Government's 5 per cent pay guidelines.

Shop stewards throughout the region have been invited to the gathering, which has the official support of 12 trade unions.

Chairman is Mr. Brian Mathers, regional secretary of the Transport and General Workers' Union, and chairman of the regional TUC.

The speakers include Mr. Sid Tierney, president of the Union of Shop, Distributive and Allied Workers, and Mr. Bob Wright, assistant general secretary of the Amalgamated Union of Engineering Workers.

The conference is a response to the growing feeling in the shop floor against pay restraint, according to one of the organisers, Mr. Roger Poole, assistant divisional officer of the National Union of Public Employees.

It said the determination of Midlands unions to fight pay restraint and press for a 35-hour week was demonstrated by the official backing given to the conference.

"We believe the 5 per cent pay policy would act directly against the interests of working-class people, and we intend to

take whatever action is necessary to ensure its defeat."

Mr. Poole claimed the conference would provide a launching pad for a campaign of "considerable significance" to the trade union movement. The aim was to co-ordinate pay claims. Shop stewards would be urged not to settle within the 5 per cent limit.

For members to settle at that sort of level would merely undermine the efforts of others," he said.

Supported

He also underlined the need for unions to campaign throughout industry for the 35-hour week. "We must keep in line. It would be farcical if some employers conceded the demand and others did not."

The conference organisers plan to continue the campaign through the regional TUC and local trades councils. A declaration expected to be supported by the conference calls for a complete return to normal collective bargaining and the early introduction of the 35-hour week.

Mr. Poole said the shorter working week would not in itself cure unemployment, but was part of a whole package of economic measures supported by the TUC to create new jobs.

Hospitals shutdown attacked by union

By OUR LABOUR STAFF

A UNION leader in the two-week-old industrial action by Britain's 3,500 hospital works supervisors said yesterday that the day of "over-reacting" by closing hospitals.

Mr. Ray Harris, assistant organiser in the National and Local Government Officers' Association, which claims to represent about 70 per cent of the officers involved, said that the industrial action was aimed at building facilities rather than patient care.

The works officers, who are restricting repairs to hospital machinery such as in laundries and sterile supplies departments in their pay differential dispute, were said to be allowing emergency services to continue.

By announcing closures, Mr. Harris said, the officers were being "thrown into the political arena" with the Government apparently prepared to create a "climate of deterioration in health service patients."

The impact of the action continued to build up yesterday with warning that major hospitals serving 260,000 people in Essex could start to shut next week.

Mr. John Webb, district administrator of Essex Area Health Authority, said two of the three main hospitals and five smaller ones in the district would have to close if the works officers carried out their threat to intensify their action.

"This is the most serious crisis we have faced. The effects will be catastrophic and deprive the population of a recognisable hospital service." Meanwhile, it was costing an extra £18,000 a week for hospitals to buy essential disposable linen and to use private laundries.

Other areas, including Birmingham, have already warned of the mounting impact of the industrial action.

The five unions involved are considering whether to ask for further intervention in the dispute by Mr. David Ennals, Secretary for Social Services.

They are pressing for a correction to a differential anomaly in a pay restructuring proposal, but were told by Mr. Ennals in the first week of industrial action that the Government was unlikely to allow any improvement in the offer because of pay policy.

Steel staff strike over cuts in research

By Our Labour Staff

ABOUT 800 OF British Steel Corporation's senior and middle management staff will hold a one-day strike today to protest against cuts in research and development operations.

The managers, members of the Steel Industry Management Association, work in laboratories at Teesside, Sheffield, Shotwick, South Wales, Motherwell and London. They claim the "indiscriminate" and "arbitrary" run-down of research and development has cut staff by 2,300 over three years.

The association, which is officially supporting the strike, fears new plans for re-organising the corporation will break up more research teams.

It feels the British Steel Board ought to reduce process costs, and improve product quality, plant performance and product development. The aim of such a strategy would be to halt the decline in the corporation's home market share, increase for export competitiveness and open up new markets.

Ordinance hit

FOUR HUNDRED inspectors, whose two-week pay strike has led to 500 men being laid off at the Government's Royal Ordnance factory at Birtley, Tyne and Wear, voted yesterday to continue the stoppage.

Employers move to stave off fresh action by firemen

By PAULINE CLARK, LABOUR STAFF

LOCAL AUTHORITY employers met firemen's leaders yesterday in what appeared a last-minute effort to ward off any decision for renewed militant action by firemen over the 42-hour week at their annual conference in Bridlington next week.

In a flying visit to Blackpool, where Mr. Terry Parry, general secretary of the Fire Brigades Union, and Mr. Wolf Barber, the president, are attending the Labour Party Conference, the employers' delegation presented detailed proposals for introducing the shorter week.

The delegation was led by Mr. Brian Rusbridge, secretary of the Local Authority Conditions of Service Advisory Board, which has delayed so far setting a date for a cut in the 42-hour week because it wants union agreement on improved efficiency and cost-effectiveness proposals.

These have been a major source of contention between the union and employers since the 42-hour week was promised as part of the settlement of the firemen's national strike last winter.

Hours problem

The reaction of the 300 delegates at their conference this year to delays or indecision on this issue, as well as over the Government's undertakings on their pay, is a matter of some concern.

Any recommendation by the union executive for more time to sort out the details of the

scheme would not necessarily wear well with a membership which voted heavily last year for a strike, against the advice of its leaders.

On the 42-hour week, the FBU executive still appears to have little on offer.

The union has warned of unilateral action on November 7 for implementation of the cut in hours, but despite the recent independent recommendation by Prof. John Woods, chairman of the Central Arbitration Committee, that a date be jointly set, the employers have still not agreed on one.

Developments on the pay issue may appear unsatisfactory to the conference.

Under last winter's settlement the firemen are guaranteed a rise of about £4, half the difference between their wage levels and

those of the upper quartile, the point three-quarters of the way up the industrial earnings table in the official earnings survey of last April.

But it was also agreed that this figure should be updated to cover pay movements between April and November, and the calculation have been delayed.

With the firemen likely next week to press to know exactly the value of the formula that they accepted at the end of their strike, the union will almost certainly suggest a recalled delegate conference in November to consider any progress made by then.

The union will face pressure for introduction of the shorter week on November 7 from delegates of what the union estimates to be about half the 63 brigades which have already recruited more firemen in preparation.

Neglect of duty pair lose £50 fines plea

TWO FIREMEN WHO failed to carry out a stand-by shift, because they claimed they were being victimised, lost their appeal to Nottinghamshire County Council yesterday, against £50 fines for neglect of duty.

They were found guilty earlier this year by the council's disciplinary panel. The men claimed they were victimised for working through the firemen's national strike.

The men — members of the British Fire Services Association — were stationed at West Bridgford, Nottingham and were asked to do a stand-by shift at the nearby Stockhill fire station.

They claimed that because they had not joined the strike, they were refused refreshments at Stockhill and returned to West Bridgford.

Ballots on more action by social workers

By Our Labour Staff

ACTION by social workers for local bargaining rights threatened to spread yesterday as the National and Local Government Officers' Association approved ballots on strike action in four more local authority areas.

The union's emergency committee, which has already made strikes official in Newcastle upon Tyne and in the London Boroughs of Tower Hamlets and Southwark, gave the go-ahead for strike ballots in Bradford, Leeds, Liverpool and the London Borough of Wandsworth.

Ballots on a work-to-rule have been approved for Surrey and for Cheshire, where a strike is proposed from December 1 if special sanctions are not effective by then.

Last week the union reiterated its full support for the social workers' strike, and Mr. Geoffrey Drain, general secretary, announced further plans for visiting the picket lines.

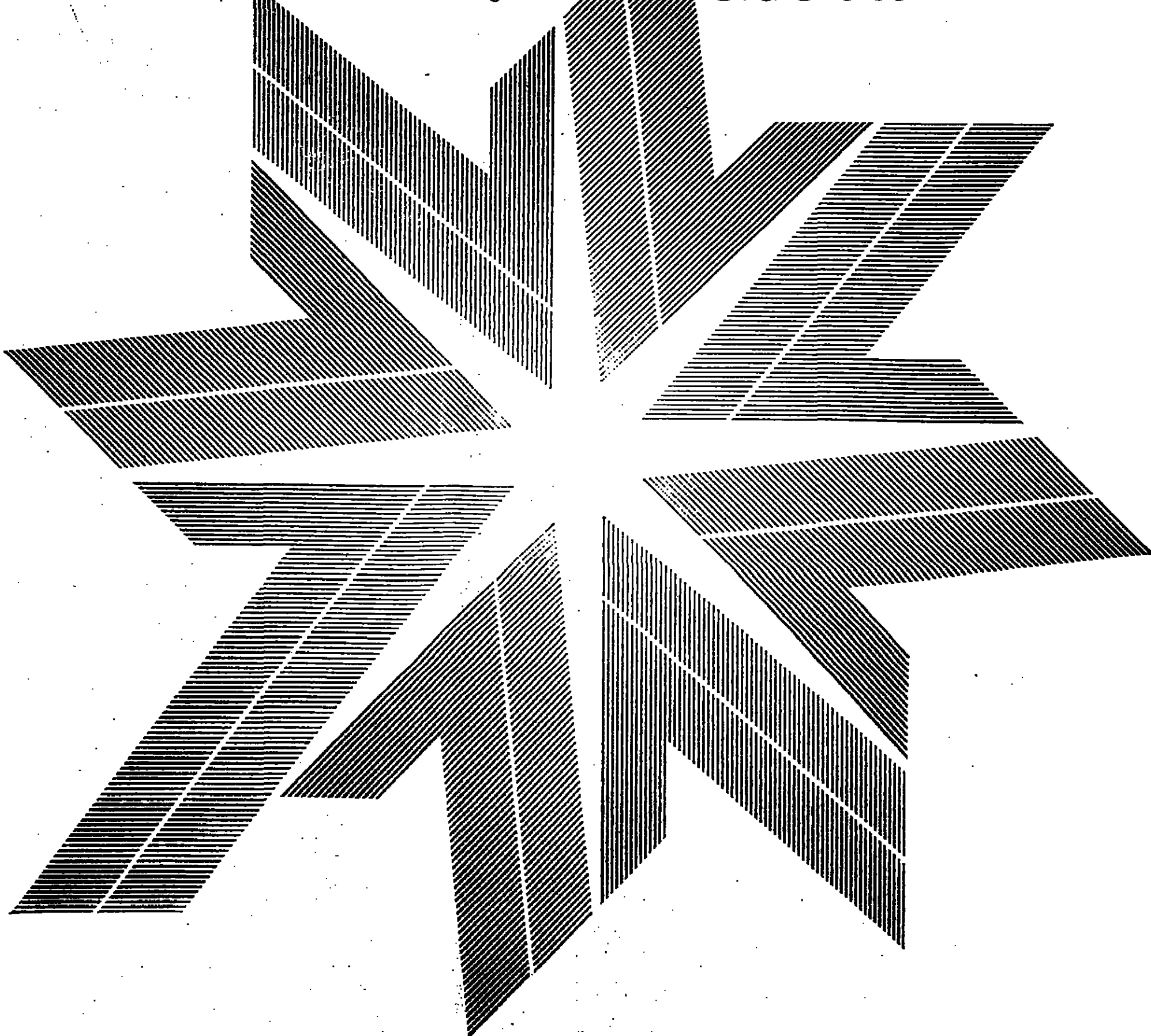
It demands a breakdown from the present national negotiating structure on pay and conditions because the social workers believe their special responsibilities in areas of greater social need would be better recognised in negotiations with local employers.

Introducing the Bri-star. Guessing who's behind it could win you a case of what you fancy.

The Bri-Star? That's the corporate symbol you've not seen before. Yet in just five days our symbol will be seen by millions. Then you'll know we're a UK public company. Then you'll discover we're nearing the completion of an enormous expansion and modernisation programme. Then you'll instantly recognise our brand name: the UK market leader, produced by a company whose efficiency is the highest in its field in Europe. On Monday next, everyone will know who's behind the Bri-Star. But meanwhile, you have the chance to raise a glass to

help us celebrate the event — entirely with our compliments. Because if you can guess our identity from the clues here, simply telephone our answering service between 9a.m. — 5.30p.m. (Monday — Friday). Leave your name and address and what you believe our be. If you're among the first 12 to guess correctly, you could be among the first to join our celebrations with a complimentary case of champagne, wine or scotch. We very much look forward to receiving your call.

01-370-6788



EEC 'red tape' charge

By OUR LABOUR STAFF

THE EUROPEAN Social Fund, heralded as one of the prime advantages to Britain in joining the EEC, has proved a great disappointment to many private companies, a leading industrial relations magazine says today.

Applications to the fund, which provides grants for the training and retraining of workers has been riddled with red tape, claims the European Industrial Relations Review.

The fund had allocated more than £236m to Britain but most of this has been used to prop up

state-run schemes. Only one U.K. company has received any social fund aid from an application based on the Temporary Employment Subsidy.

The magazine says the main problem with British applications to the fund is a conflict between the rules of the fund and those of the subsidy.

Social fund money is allocated only to named workers in a training scheme rather than to the number of jobs they occupy. Employment subsidy applies to the number of jobs saved.

Grimsby fish ban stays

A TWO-HOUR meeting yesterday attended the meeting and now between dockside porters, mer- it is likely that a dockside ballot chants and trawler owners failed, will be held on the question, to lift Grimsby's ban on Icelandic fish.

The ban, imposed in January, 1976, when British trawlers were thrown out of Iceland's 200-mile limit, has been lifted at Hull and Fleetwood.

Only 75 of the 220 porters is not possible.

To the holders of National Bank of Hungary (Magyar Nemzeti Bank)

Redeemable Floating Rate Deposit Notes due 1980

In accordance with the provisions of the above Notes, American Express International Banking Corporation, as Fiscal Agent, has established the rate of interest for the semi-annual period ending on the 19th March, 1978, at 9 1/2 per cent. Interest due at the end of the Interest Period will be available upon surrender to any of the Paying Agents of Coupon No. 6. American Express International Banking Corporation as Fiscal Agent.

LABOUR AT BLACKPOOL



Oratorical style of leadership: Callaghan wins cheers from delegates after his defeat on wage restraint



Report by John Hunt, Ivor Owen, Elinor Goodman, and Philip Rawstorne. Pictures by Terry Kirk.

Inflation still Callaghan's main enemy

THE Government will carry out its "inescapable obligation" to control inflation despite the rejection of its 5 per cent pay policy, the Prime Minister said.

Mr. Callaghan said that he and Mr. Denis Healey, Chancellor, were determined to prevent escalation of inflation by whatever measures were at hand, including monetary and fiscal action if necessary.

This would be done "relying as much as we can on the responsibility of the trade unions and upon our fixed policy, which we will try and interpret as easily as possible within the limits."

He admitted that the rejection of the 5 per cent limit by the conference on the previous day had been a defeat for the Government but insisted that the level of pay did have a direct impact on prices.

Any big wage increases in excess of 5 per cent would have an effect on company liquidity, investment and the level of unemployment.

The Prime Minister said that Monday's debate had concentrated on pay levels but almost no reference had been made by speakers to inflation. This ignored the obligation of the Government to do all it could to control inflation.

Estimates

The fact that inflation was now down to single figures was partly the result of the improved value of the pound and of lower import prices.

There would have been a greater impact on the cost of living index if we had had to rely on wage control alone.

He warned that the Government's best estimate was that wages in excess of 5 per cent in the coming year were likely to result in a double-digit inflation rate.

He urged the trade unions and party members to concentrate their attention on the question of helping the lower paid. This was not just a matter to be left to the Cabinet.

Flexibility

Mr. Callaghan emphasized that he was in favour of flexibility in wages but flexibility was a two-way business.

"I am ready and anxious to take up with the trade unions at any time the long-term approach to this problem, to see how we can come to avoid in future the difficulties that have arisen in the course of the current year."

The Government had to use any means it could to achieve its Socialist ends and he did not believe that wages could be set out of that calculation.

"Let us have more talks. I am ready to make an approach myself if the unions agree to take it up and see where we were from here."

In the longer term, he wished to find a better way of deciding the issue of pay levels.

The power of the organised sector in society made this necessary when single groups had the ability to disrupt the economy.

Responsible

"That is our responsibility. It is necessary that the Government should accept that responsibility. We shall not seek to evade it and no one can relieve us of it."

The Government had tried to get the support of the trade union movement for the 5 per cent wage limit—but we have not had it.

Nevertheless, he told delegates that they still had a major contribution to make. He remained hopeful that pay policy would have a part to play through a responsible level of settlements.

If the Chancellor did keep a firm control of money supply while wages were rising by more than 5 per cent, there would be an impact on company liquidity and on the level of wages that companies could pay.

This would affect the number of employees kept in work. "I don't want to follow this path," he told the conference. "But until you tell me to go back on my policy of keeping down inflation I regard that as my total responsibility."

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any addition to petrol duty or even to the employers' National Insurance contribution.

Mr. Cartwright emphasized that the question of the proper balance between direct and indirect taxation would be a major feature of the NEC report. It was being considered in great depth.

The attitude of the sponsors in agreeing to limit the resolution to the NEC was clearly influenced by the fact that an earlier resolution calling for reform of the tax structure to include the amalgamation of social security benefits and the introduction of tax relief for the cost of travel and from work was decisively rejected at a show of hands.

Mr. Sheldon, who highlighted the effect achieved by Government policies in narrowing the range of affluence, income, claimed that the Government had used taxation as a Socialist measure of redistribution, as well as for a fair sharing of the burden.

He also pointed out the danger of that burden and further development of our Socialist taxation policy, he said.

Cheers for Labour's stylish loser

BY PHILIP RAWSTORNE

MR. JAMES CALLAGHAN came back from the humiliation of defeat with a skilful and stylish performance yesterday.

The Labour conference—rife as ever in its ringleader's affections—applauded his resilience as wholehearted as it had previously rebuffed his rigidity.

Mr. Callaghan smiled ruefully as he rubbed his bruises. The delegates grinned back in apologetic sympathy.

The Prime Minister graciously conceded points to his trade union opponents. The encounter had been a lesson in democracy, he said. Without being masochistic he had even enjoyed some of it.

But if Mr. Callaghan came cautiously out of his corner, he did so with renewed determination to carry on the fight against inflation.

There was to be no yielding on that issue, he insisted. The rejection of the 5 per cent limit had been a serious setback. He sighed audibly again at the thought of losing a policy that had brought such success.

How was the Government to react, then, he asked. Conference had left him in no doubt about what should not be done but had been short on advice about the alternatives.

Was the Government to stand by, paralysed and helpless, and watch inflation rise again, he demanded. He answered his own question: "No."

The Government's "inescapable responsibility" was to keep inflation down. If it was to be denied the arm of pay restraint, it would have to use the other effective counters at its command.

"The Government will take offsetting action to get inflation down through monetary and fiscal measures. Let no one underestimate the impact they would have on pay and employment."

The Government would have to use, however reluctantly, whatever means were at hand. But in this crucial round, with a general election at stake, he gently suggested that the unions should not throw

all the responsibility on the Government's shoulders.

Mr. Callaghan said he would be as flexible as he could. "We shall try to interpret it (the 5 per cent policy) as easily as possible within the limits laid down by the White Paper."

But, with a gravely prodding finger, he reminded the trade unions that they had undertaken a responsible approach to wage negotiations.

Mr. Callaghan said he was ready and anxious to discuss that responsibility with them. Some better way had to be found to resolve the issue of wage levels without resorting again to savage bare-knuckled clashes.

The trade union delegates appeared to be just as eager to forget the previous day's encounter.

In an atmosphere mellowing with compromise, the Prime Minister bounded optimistically forward towards the other challenges that would face his next Government.

No funds to fight European elections

THE LABOUR Party will not be able to provide funds for its candidates to fight the elections to the European Parliament which are due to take place on June 7.

Mr. Denis Healey, party treasurer, told conference. There were cheers from some delegates as he said: "The national party cannot fund European candidates out of money we now know will be available."

"If the British General Election has not taken place by that time, certainly we will not tamper with this money. It will be put aside for the British elections. I have to say there will be no money for the European elections."

The treasurer, who is MP for Tottenham and an opponent of the EEC, said that the party had £330,000 in its General Election campaign fund. This was a long way short of what would be necessary. When the General Election came, Labour would need much more than this.

Mr. Atkinson said that the general party fund had gone into deficit in 1976 and in the 1977-1978 financial year, that deficit rose to £81,000.

"Without being hostile to fortune, our arithmetic this year suggests we shall experience an even bigger deficit in 1978. We anticipate something around £100,000 this year, and we will have to take some remedial action to put that right, he declared."

The trade union affiliation fee would rise to 25p this year and to 32p in 1980. This, however, would not solve the problem, unless more money was forthcoming from other sources.

Despite these difficulties, he looked forward with confidence to the coming year and thought the party would have the funds to mount a campaign which exceeded previous efforts.

Doubts on farmland Bill timing

THE INCREASING role of financial institutions in farming came under attack when conference agreed to press for legislation to take agricultural land into public ownership.

While the resolution, which also pressed for action to include the re-rating of agricultural land and buildings, envisaged legislation being introduced in the next Parliamentary session, Miss Joan Maynard, for the NEC, said that there was little prospect of this timetable being met.

But when a start was made on taking agricultural land into public ownership, she said, the large estates, which covered about 75 per cent of rented land, should be at the top of the list.

Mr. Gavin Strang, Parliamentary Secretary to the Ministry of Agriculture, reaffirmed the Labour Party's opposition to State farming. Land in public ownership should still be worked by tenant farmers, he pledged.

Mr. Strang deplored the fact that more farming was being undertaken by the big financial institutions themselves. He found this just as objectionable as State farming.

The Minister looked forward to the Northfield Committee, which is examining agricultural land ownership, producing a report leading to Socialist policies which were relevant, practical and decisive.

Miss Margaret Manning, Manchester Moss Side, urged that the public ownership of land, in view of the role being played by the financial institutions, should be linked to the nationalisation of the banks and the insurance companies.

Death grant

CONFERENCE gave overwhelming backing to a motion calling on the Government to increase what was described as the "derisory" £30 death grant.

The motion deplored the delay in raising the grant paid to next of kin, and called on the Government to increase it to a level sufficient to cover the cost of a normal funeral.

Further scheme to help jobless

THE Government is preparing a scheme to help the long-term unemployed by the one already introduced for school leavers and young people.

Mr. Callaghan said that every one of the 500,000 long-term unemployed was a standing reproach to society. Already, the Government had ensured that every school leaver would have a job, a training place or other work opportunity.

"Now we intend to try something even more difficult—preparation of a similar scheme for the long-term unemployed."

He has asked the appropriate Ministers and the agencies involved to undertake an urgent study to produce a practical scheme.

The object would be to offer an "assurance of help to each of them" by guaranteeing a job, or an opportunity to train or retrain.

"In this way, we could reduce drastically involuntary long-term unemployment and, as far as possible, put a time limit on joblessness."

Without going into detail, Mr. Callaghan said that the next Labour Government would, if necessary, take further measures to control prices.

"We propose to step up the attack on prices. The next Labour Government will further strengthen the powers of the Price Commission if it is shown to need them."

Turning to the session of Parliament which starts on November 1, he said the Government would bring forward controversial measures to enable people to participate more in decision-making.

The new Companies Bill will give employees the right to much more information about their employers' affairs. There will be legislation giving teachers and parents more influence in the way schools are run. Council house tenants would be given greater control over their houses.

The Royal Commission on the Health Service would be reporting in a few months and its recommendations would show the Government how to undo much of the damage caused by the Tory reorganisation.

This would make management of the health service more responsive to patients and to the people who work in it.

The Prime Minister said that four conditions for the success of the next Labour Government: the economic aims of recent years must not be thrown away; the benefits of North Sea oil must be used to underwrite industry and provide new jobs; Britain must become more productive; and the country must take advantage of new technology while guarding against its ill-effects.

Today's agenda

- Education
- European Economic Community
- Racialism
- Nuclear weapons
- Electoral reform
- NEC document on local government reform in England



Listening to the membership: Peter Shore (left), Stanley Orme, David Owen and Ray Mason

Shifting balance of power

THE balance of power in the Labour Party is shifting steadily towards the unions, a trade union delegate warned party conference in Blackpool yesterday.

Mr. John Edmonds, national industrial officer of the General and Municipal Workers' Union, said that the balance between unions and constituency members was changing each year.

Individual membership could have fallen to only 300,000 which meant that unions made up an increasingly large proportion of the total.

At each election, the unions were being asked for more money.

The party must recognise that union funds are limited. The political party that relies to this extent on trade union finance is extremely vulnerable and some would say unhealthy at its heart.

Mr. Edmonds was supporting a National Executive decision to set up an inquiry committee into party organisation.

But executive member Mr. Eric Heffer denied that there had been a great swing towards the unions. "We have got to have unity between the trade unions and constituency parties."

He added that once the general election was out of the way, the question of party organisation would be considered.

To loud applause, he warned union delegates: "It's no good just pouring money into party conference. We need people on the doorstep in election campaigns."

The exact date is to be announced in the Queen's Speech on November 1. The first date is February 22, March 1, 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th, 13th, 14th, 15th, 16th, 17th, 18th, 19th, 20th, 21st, 22nd, 23rd, 24th, 25th, 26th, 27th, 28th, 29th, 30th, 31st.

The referendum on devolution in Scotland and Wales are expected to be held at the end of February or the beginning of March.

The referendum on the Queen's Speech on November 1. The first date is February 22, March 1, 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th, 13th, 14th, 15th, 16th, 17th, 18th, 19th, 20th, 21st, 22nd, 23rd, 24th, 25th, 26th, 27th, 28th, 29th, 30th, 31st.

Militants lose fight for automatic reselection

LABOUR militants lost their long campaign to force all Labour MPs to submit to automatic mandatory reselection by the constituency parties by the comparatively narrow margin of 381,000 votes.

A compromise National Executive proposal introducing a two-stage reselection procedure under which constituency parties would be able to formally re-select them and thus opt out of a wider selection process—was carried by 4,081,000 votes to 2,518,000.

It was the second major reverse suffered by the militant Left in earlier attempts to give the conference a role in the election of the leader of the Labour Party.

Instead, conference backed the status quo by allowing the election of the party leader to remain solely in the hands of the Parliamentary Labour Party.

But under a change in the party's constitution, the leader of the parliamentary party will in future automatically assume the mantle of the new formalised title of Leader of the Labour Party as well.

Mr. Joe Ashton, Labour MP for Bassetlaw, led the fight against automatic mandatory reselection in a speech which was alternatively cheered and jeered, as the bitterness which has marked this controversy showed itself on the conference floor.

He catalogued the pressures which are already imposed on Labour's 300 MPs—"eight died in the last year, some because of ill health, some because we were sick"—and warned that they would be placed in an impossible position by automatic mandatory reselection.

"This instant hire and fire is not going to do the party a lot of good."

Mr. Ashton spelled out the dilemma of Labour MPs. "We cannot win. If we vote for 5 per cent, we get kicked up the backside by the constituency and the unions. If we don't vote for it, we get kicked by the electorate and lose the job as well."

He forecast that the introduction of automatic mandatory reselection would lead to the biggest "night of the long knives" and the highest purge seen for many years.

He warned delegates who cheered this prophecy that some Labour MPs would not tamely accept the sack from their constituency parties but stand and fight.

He envisaged the emergence of disowned Labour MPs fighting as independent Labour candidates with the likelihood of a split vote in some 25 safe seats. This would prove disastrous.

The case for automatic mandatory reselection was argued by Mr. Terry Bunt, Basingstoke MP, before gaining the opportunity of re-selection.

This had obvious dangers which concerned the Labour Party, Mr. Bunt contended that an automatic re-selection process would pose no threat to MPs who satisfied their constituencies. In such cases re-selection could be achieved on the basis of a short list of one.

Mikardo voted off executive

MR. IAN MIKARDO, a leading figure on the left wing of the Labour Party for more than a quarter of a century, and a former party chairman, was today ousted from Labour's policy-making National Executive.

This was the surprise news when the results of the election for the executive next year were given to the Labour Party conference in Blackpool.

He was voted out of the constituency Labour Party section of the executive after four years in the post, which was announced in the results for two years.

Mr. Mikardo, MP for Bethnal Green and Bow, is the only party member to have been elected to the conference on three occasions, in 1970 and in 1971 and for a special conference on the Common Market in that period.

Off with him goes Mr. Jack Ashley, MP for Stoke-on-Trent South, who is regarded as a moderate.

The two newcomers in this section are Mr. Dennis Skinner, MP for Rotherham, and Mr. Neil Kinnock, MP for Bodveilly.

Dr. David Owen, the Foreign Secretary, failed to get onto the Executive of his second attempt. The only other person removed from the executive is Mr. John

Cartwright, MP for Woolwich East, a moderate. He was replaced on the left wing by a former party chairman, was today ousted from Labour's policy-making National Executive.

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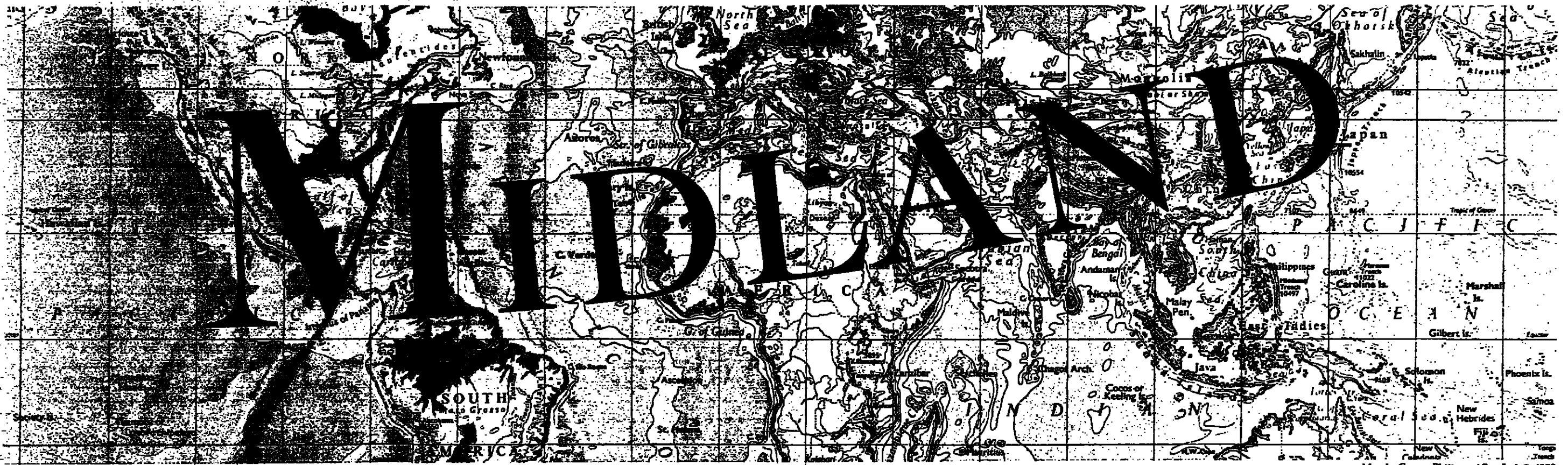
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Delivers.

Wednesday October 4 1978

July 1978

U.S. Futures Markets

Interest in futures trading on the U.S. commodity markets has been encouraged by the investor's desire for protection against the fall of the dollar as well as fears of renewed inflation. The biggest growth has been recorded by trading in interest rates and foreign currencies.

THE EXPANSION of the futures industry continues to grow even more as a battle looms between New York and Chicago over futures business. The importance of the financial instrument contracts seems likely to grow even more as a battle looms between New York and Chicago over futures business.

The American Commodity Exchange, an offshoot of the American Stock Exchange in New York, has just launched a futures contract trading in amount of deliveries were made on all contracts traded, and actual delivery made only on a small percentage.

Nevertheless it is one indication of the growth of interest in futures trading in the past decade and especially in the past few years. The number of contracts traded on the futures markets provided further evidence of the industry's expansion.

Total futures contracts traded in 1977-78 rose by nearly 17 per cent to \$48.4m—double the volume of only four years ago. Soybeans on the Chicago Board of Trade remains the granddaddy of all the markets.

Trend

But the really significant trend to emerge is the growth of a new breed of futures trading—the so-called financial instrument markets covering interest rates and foreign currencies. These markets have established themselves with astonishing success in a short time and have provided the main excitement during the past year, with most traditional commodities taking a back seat in generally dull conditions.

The success of the gold and foreign currency futures contracts also highlights the increasing preoccupation of individuals and companies with the protection of their funds against inflation and unpredictable currency movements.

An even closer link between the stock markets and futures could be forged by the Kansas City Board of Trade plan for futures trading in the 30 industrial stock average. The idea is to provide hedging facilities against fluctuations in the value of stock portfolios.

It is claimed that the contract will offer investors as well as speculators the same type of price and value protection provided by commodity futures markets. While attention has been concentrated on the financial

Details of the changes made to the CFTC structure by Congress have yet to be fully clarified, but one important change is that the chairmanship of the Commission is now a political appointment by the President.

produce options trading on the U.S. commodity exchanges for some time, especially as the debate over reauthorisation of the Commission has caused a log-jam of paperwork. It is still hoped that option trading

already happened with the "geriatric" securities market and it had to be prevented from happening to the "adolescent" futures industry, which is still expanding, especially with the spate of new financial instruments that is attracting a whole new sector of investment interest. Financial institutions, which previously were mainly concerned with providing funds to commodity dealers, are now becoming participants as well to a much greater extent.

At the same time managed commodity futures funds, aiming to provide a higher return on capital because of the better gearing in futures, are becoming increasingly popular as a source of investment for surplus funds; computers and charts are now common tools used to predict market trends.

There is a totally different attitude among public and government circles in the U.S. to speculation on the futures market than in Britain. Mention commodities to a taxi driver and he will often ask what's happening in pork bellies, soybeans or silver. New Yorkers are even being wooed by TV advertising to participate in futures trading.

Government authorities recognise that speculation is essential to provide the liquidity required for adequate hedging facilities for the trade user. A market without sufficient funds is unable to give the trade proper price protection and the volume of speculation is recognised as a necessary ingredient.

At the same time it must be said that the exchanges themselves have also made considerable efforts to improve their image from that of gambling dens to more responsible institutions playing an important role.

The growth in popularity of gold and interest rate futures certainly helps the respectable image, and the exchanges are confident that they can continue expanding. This will be especially so when the trading in the traditional commodities, particularly grains, is restored to more normal levels after a long period of depressed prices.

Financial contracts fuel expansion

By John Edwards, Commodities Editor

The success of the gold and foreign currency futures contracts also highlights the increasing preoccupation of individuals and companies with the protection of their funds against inflation and unpredictable currency movements.

The CFTC came under particular fire both in the U.S. and Britain for its failure to control the London options scandal.

London commodity traders were particularly incensed at the bad name given to UK markets by the activities of dubious companies in the U.S., which in many cases either merely pocketed the premiums or charged excessive amounts.

In the U.S. the CFTC eventually took the easy way by banning all option trading, except for special trade options. This has put back plans to in-

will be authorised on the New York and Chicago exchanges, but the starting date is now more likely to be 1980 rather than next year.

Meanwhile there is considerable resentment among commodity traders against the CFTC. Pitiful and pathetic were two of the politer descriptions of the Commission's role so far.

It is feared that the CFTC could over-regulate the markets and drive business abroad. In the prejudiced view of one New York commodity trader this has

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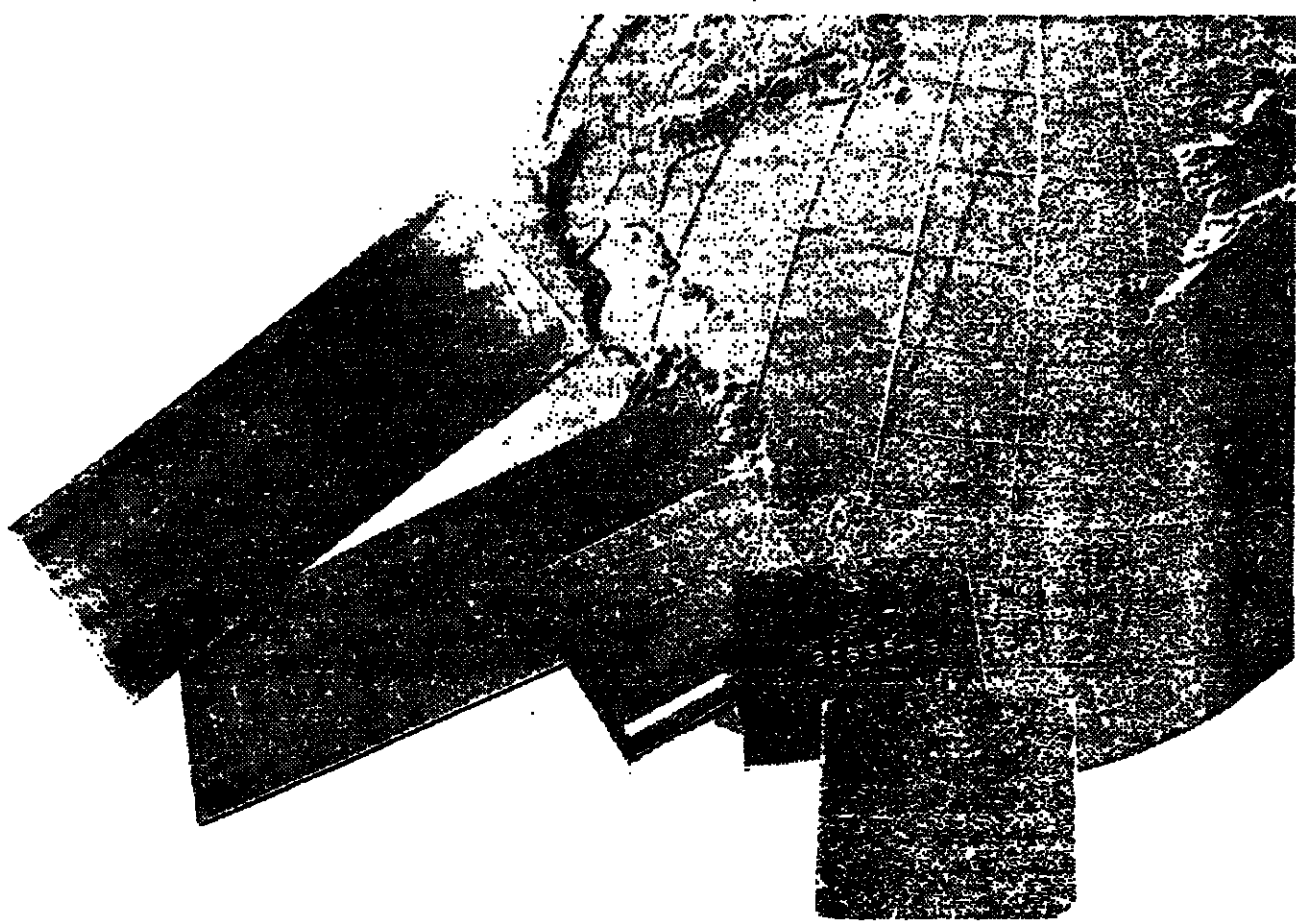
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U.S. FUTURE MARKETS II

Brokerage houses branch out

BANKS AND financial institutions have traditionally played a service role to the commodity markets either by financing the actual production of raw materials or providing the funds and facilities for marketing of the product, including the futures markets.

The huge sums of money that are traded each day on the futures markets may be just "paper" transactions cancelling each other out most of the time, but nevertheless they do represent commitments that require financial backing. Not surprisingly, banks based in Chicago, and New York, where there are the biggest futures markets in the world, have established special links. Bankers Trust and Chase Manhattan, for example, have been actively promoting the commodity service in recent years. In Chicago, leading banks associated with the futures markets include Continental Illinois, First National Bank of Chicago, and Harris Bank.

First National, for example, has held a membership seat on the Chicago Board of Trade for many years, which it uses as a form of on-the-spot sales and information branch to keep in close touch with what is happening.

Some 70 per cent of the silver stocks, held by the Board of Trade, are held in First National's warehouses, and it provides loans against warehouse receipts; letters of credit and general financial support for the market traders.

Similar

Several other banks in Chicago and New York specialising in commodities play a similar role in providing a service to the futures markets. However, the introduction of the financial instrument and foreign currency contracts means that the futures markets are becoming much more actively engaged with financial institutions as participants in the market as well.

The futures exchanges can now provide protection against volatile movements in interest rates or foreign currencies as well as in pork bellies or soybeans.

This point has not been missed by the Wall Street brokerage houses which are now fighting to get in on the act. One of the leaders, as might be expected, is Merrill Lynch, George Hall, who heads up their new financial futures operation, has been with Merrill for 11 years, and had previously been in charge of the speculative sales department of their commodity division. He has spent the last two years studying the financial futures market to see if it was the sort of market in which Merrill should make a "substantial commitment." They have now decided to take the plunge and Mr. Hall feels that the market is still in its infant stages and the growth over the next few years could be "absolutely spectacular."

Consequently, he is building up his staff to service not only Merrill's important institutional clients but also the firm's retail customers.

The story is much the same among the other important Wall Street brokerage houses. E. F. Hutton, in particular, appears to have geared itself up in a major way to take advantage of the rapid growth in the interest rate futures market and under Martin Borenstein now has one of the largest specialist staffs in this area. Hutton has several hundred retail account executives that are now being educated to market interest rate futures in addition to the firm's full-time specialist interest rate futures sales staff.

At Shearson, Hayden Stone they lured Jay Barr over from Merrill Lynch's Government Securities operation to run their new financial futures department. Like Merrill, Shearson is heavily biased towards the retail end of the business with other 100 branch offices across the country and part of Barr's job is to run seminars for the firm's salesmen to teach them all about financial futures.

Bache-Halsey Stuart Shields was another firm that went out to hire people to run its infant financial futures operation. In May, Pat Collins joined Bache from ContiFinancial, the financial futures operation of the giant Continental Grain Company. Bache was already active in the area and Collins sees his role as that of a "product manager" to ensure that financial futures are properly marketed through Bache's 2,000-odd salesmen and 180 offices. In common with other operators in this market Collins admits that it is sometimes rather difficult to see quite where he fits into the organisational structure of a large brokerage house like Bache. Officially he is part of the commodity division but because financial futures are increasingly being used by operators in

Latest figures issued by the U.S. Future Industry Association show that the Chicago Board of Trade still has the lion's share of total business, but is

meeting increasing competition from the lively Chicago Mercantile Exchange just "down the road." The New York exchanges now account for over 20 per cent of total business.

U.S. FUTURES VOLUME

Rank	EXCHANGES	1977-78 and Comparison with 1976-77		Ranking
		July 1977 to June 1978	July 1976 to June 1977	
		Contracts	%	in 1976-77
1	Chicago Board of Trade	24,662,008	50.93	53.21 (1)
2	Chicago Mercantile Exchange	10,950,964	22.62	6,895,025 16.63 (2)
3	Commodity Exchange, Inc.	6,490,451	13.22	6,013,371 14.50 (3)
4	Mid-American Commodity Exchange	1,956,396	4.04	2,466,506 5.71 (4)
5	New York Cotton Exchange	1,262,809	2.61	1,105,273 2.66 (5)
6	New York Coffee and Sugar Exchange	1,121,624	2.32	1,315,069 3.17 (6)
7	New York Mercantile Exchange	852,259	1.76	538,015 1.29 (8)
8	Kansas City Board of Trade	713,673	1.47	633,124 1.53 (7)
9	New York Cocoa Exchange	264,850	.55	323,368 .78 (9)
10	Minneapolis Grain Exchange	235,250	.48	314,191 .52 (10)
		48,420,684	100.00	41,466,011 100.00
LEADING CONTRACTS				
1	Soybeans (Chicago BOT)	7,708,575	15.92	7,885,016 19.02 (1)
2	Corn (Chicago BOT)	6,028,271	12.45	4,683,943 11.30 (2)
3	Live Cattle (Chicago Mercantile)	3,760,499	7.77	2,878,004 6.94 (4)
4	Silver (Commodity Exchange, Inc.)	3,511,911	7.25	4,121,325 9.94 (3)
5	Soybean Oil (Chicago BOT)	2,614,870	5.40	2,389,203 5.76 (5)
6	Silver (Chicago BOT)	2,501,327	5.17	1,966,725 4.74 (8)
7	Soybean Meal (Chicago BOT)	2,339,727	4.83	2,135,298 5.15 (7)
8	Wheat (Chicago BOT)	2,119,844	4.38	2,278,889 5.49 (6)
9	Gold (Commodity Exchange, Inc.)	1,865,409	3.84	1,096,166 2.64 (12)
10	Live Hogs (Chicago Mercantile)	1,661,908	3.43	495,048 1.19 (17)
11	Gold (Chicago Mercantile)	1,482,919	3.06	1,232,617 2.97 (10)
12	Pork Bellies (Chicago Mercantile)	1,080,741	2.23	1,245,733 3.00 (9)
13	Copper (Commodity Exchange, Inc.)	951,514	1.97	1,101,929 2.66 (11)
14	Sugar #11 (New York)	941,317	1.94	1,073,583 2.59 (13)
15	Cotton (New York)	858,831	1.77	942,777 2.27 (14)
16	Wheat (Kansas City)	713,673	1.47	633,110 1.53 (16)
17	GNMA Mortgages (Chicago BOT)	608,445	1.26	235,011 .57 (25)
18	Lumber (Chicago Mercantile)	526,496	1.09	398,222 .96 (19)
19	Potatoes, RW (New York Mercantile)	510,930	1.06	241,557 .58 (24)
20	Orange Juice (New York Cotton)	404,929	.84	180,507 .39 (29)
21	T-Bills (Chicago Mercantile)	403,946	.83	217,006 .52 (27)
22	Silver (Mid-America)	386,449	.80	410,926 .99 (18)
23	Plywood (Chicago BOT)	352,593	.73	281,983 .68 (23)
24	Feeder Cattle (Chicago Mercantile)	321,779	.66	107,166 .26 (35)
25	Platinum (New York Mercantile)	279,184	.58	129,201 .31 (33)
26	Corn (Mid-America)	266,325	.55	397,284 .96 (20)
27	Cocoa (New York)	264,850	.55	323,200 .78 (21)
28	Wheat (Minneapolis)	235,231	.49	214,102 .52 (28)
29	Deutschemark (Chicago Mercantile)	222,008	.46	73,952 .18 (38)
30	Japanese Yen (Chicago Mercantile)	219,682	.45	— —
31	Swiss Franc (Chicago Mercantile)	214,480	.44	50,073 .12 (39)
32	Live Hogs (Mid-America)	189,963	.39	142,287 .34 (31)
33	British Pound (Chicago Mercantile)	179,056	.37	34,484 .08 (40)
34	Coffee "C" (New York)	162,920	.34	219,028 .53 (26)
35	Wheat (Mid-America)	157,701	.33	309,277 .75 (22)
36	T-Bonds (Chicago BOT)	141,603	.30	— —
37	Canadian Dollar (Chicago Mercantile)	139,100	.29	106,291 .26 (45)
38	Oats (Chicago BOT)	132,953	.27	122,895 .30 (34)
39	Fresh Eggs (Chicago Mercantile)	117,506	.24	156,275 .38 (30)
40	Iced Broilers (Chicago BOT)	70,207	.14	76,661 .18 (37)
41	Palladium (New York Mercantile)	41,615	.09	— —
42	Gold, 3 Kilo (Chicago BOT)	39,324	.08	— —
43	Contracts below 20,000 volume	87,763	.18	252,847 .61 —
		48,420,684	100.00	41,466,011 100.00

Source: U.S. Futures Industry Association

the massive "cash market" in form of "gambling," Mr. Bagley futures and their interrelation feels that the pendulum could swing the other way and those markets.

Corporations that do not hedge their interest rate exposure, may in future be accused of "gambling."

One of the first specialist financial futures operations, Conti Financial, was set up by the Continental Grain Company back in 1975 under the leadership of Dr. Richard Sandor. It had a head start over most of the others and is today one of the largest operators in the specialist financial futures market. It has recently opened an office in New York, in addition to its base in Chicago, to counter the growing competition from the Wall Street brokerage houses, and has a staff of around 10 senior executives all of whom have MBAs.

Split

According to Dr. Sandor the main impact of the new financial futures markets has been to create a "whole new class of speculator." He sees the market being split into three main types of users. The primary users tend to be the investment bankers and dealers in government securities who want to cover their positions. The secondary users are the commercial banks which use it extensively to hedge and arbitrage their corporate bonds, for example, and finally there are the mortgage bankers and savings and loan associations which operate in the "Ginnie Maes" etc.

Many of the Wall Street brokerage houses, however, feel that there is tremendous potential to be had in developing a fourth category of user — their corporate clients. Already they are citing examples of companies as diverse as airlines and public utilities taking advantage of the financial futures market to hedge their exposure to interest rate movements. At the moment such examples are more the exception than the rule but Bill Bagley, Chairman of the Commodity Futures Trading Commission, feels that this is bound to change, given the background of volatile movements in interest rates. Whereas many large corporations used to shy away from operating in the futures market because they regarded it as a

meeting increasing competition from the lively Chicago Mercantile Exchange just "down the road." The New York exchanges now account for over 20 per cent of total business.

CONTINUED ON NEXT PAGE

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NY: merger goes well

THE MERGING of the four futures exchanges in New York under one roof at the giant World Trade Centre seems to have gone better than anyone dared hope. That is the impression a year later after the merger of the four exchanges—Comex, sugar and coffee, cotton, and Mercantile—got together under the umbrella organisation of the Commodity Exchange Corporation (CEC).

There is such a diversity of futures markets within the four exchanges that it was thought they might have serious dif-

ferences in coping with their different interests. However, that has not been the case. The four exchanges are still run autonomously, with their own individual directors and secretaries.

But despite some obvious day-to-day disagreements, all the exchanges declare themselves to be very pleased with the benefits of co-operation that has enabled them to provide much improved trading conditions and stimulate extra interest in their markets. Joint memberships—that is traders who are members of two or of all four

exchanges—are rising and this has meant an increased turnover for several markets. There is a certain amount of caution about the future: it is emphasised that it will take a long time before all the different interests can be merged. But as one trader put it: "Ten years or even fewer from now the New York Commodity Exchange Corporation will be rivaling the Chicago Board of Trade in size and stature." There is still a long way to go before that is true; nevertheless the introduction of the financial instrument complex planned by

Comex should be a binding influence that will attract interest from all its fellow exchanges and be in direct competition with Chicago.

Comex is offering a "bargain basement" membership confined to the proposed financial instruments complex only of \$7,500 for a seat to ensure adequate membership at the launching. Given the experience in Chicago, where the price of financial markets seats has rocketed, there should be a great deal of interest.

A huge rise in gold futures trading has kept Comex just

ahead of the Chicago Mercantile Exchange in volume terms. But it has lost some ground on silver—although it is still the leading market—because of doubts about the tax straddle business that accounted for a large proportion of its previous turnover.

Other new contracts are being studied, including aluminium and nickel, but after the bad experience with the zinc futures market that has so far failed to get off the ground properly, Comex appears more interested in expanding into financial instruments.

The New York Mercantile Exchange, which has managed to survive the well publicised defaults on its Maine potatoes contract, has had great success with platinum futures where turnover has leapt.

It is planning to revive its presently dormant contracts for foreign currencies in view of the increased interest shown in these markets in Chicago, and the general U.S. concern about the decline in the dollar.

illustrated by the flight into gold and platinum. Other possible new contracts are for oil futures, for domestic delivery only.

The Cotton Exchange is considering efforts to revive its dormant petroleum market by changing the point of delivery closer to the U.S. It is looking as well at the possibilities of trading in cottonseed oil and rice, although nothing definite has been decided. Meanwhile, volume on its orange juice futures contract has expanded, partly through market conditions and partly through extra

turnover generated by joint members of several exchanges.

Falling prices and reduced interest have hit turnover on the coffee and sugar exchange, although the coffee contract has been widened to allow delivery from more countries. One idea being studied is for a sweeteners futures market, allowing delivery of liquid sugar to recognise the growth in the high fructose corn syrups in the U.S. particularly. Another possible new contract is for ocean freight rates, which are of considerable interest to sugar and coffee international traders.

Meanwhile the Sugar and Coffee Exchange is holding talks with the Cocoa Exchange—the only New York exchange not under the CEC umbrella so far. Although trapped in its present premises by a costly lease, with many years to run, the Cocoa Exchange is apparently impressed by the way that the different exchanges have managed to put aside their parochial interests to their mutual benefit.

A comparison between the trading facilities and location indicates why cocoa is feeling a little left out in the cold—dependent on one market for its survival. The view at the World Trade Centre is that the CEC should have been formed 15 years ago and included cocoa. There seems little doubt that the growing international reputation of the merged exchanges in New York will make them a far more powerful influence in the years ahead.

John Edwards

Chicago: records broken

RECORDS SEEM to be broken almost every month nowadays on the Chicago futures exchanges. Last month the Chicago Mercantile Exchange announced that volume of contracts traded in the first seven months of 1978 jumped to over 8.1m contracts, surpassing the volume for the whole of 1977, which itself was a record 7.9m contracts.

On the giant Chicago Board of Trade monthly trading volume in August reached an all-time record of 2.28m contracts. This is the fifth time this year contracts traded have topped the 2m-a-month, pushing total volume for the year to 17.7m contracts, 17 per cent above the previous year's record levels.

A membership on the Board of Trade fetched \$210,000 in September, the highest price ever paid for a seat there and the asking price is now closer to \$225,000. On the Chicago Mercantile, the astonishing growth of trading has pushed membership prices to \$210,000 for a seat. Much of the surge of trading in the exchanges can be attributed to the phenomenal success of the financial instrument futures contracts that have opened up an entirely new sector. They have chimed in well with the growing preoccupation in the United States about the unsettled state of domestic and international economic conditions, symbolised by the decline in the value of the dollar and the growing threat from inflation.

The Chicago exchanges realise that having blazed the trail into this new sector, they are going to face a major battle in the years ahead with the New York exchanges seeking to get in on the act, backed by their strength as a major financial centre.

Competition between the Chicago Board of Trade, which still accounts for over 50 per cent of total U.S. futures trading, and the fast-growing Chicago Mercantile Exchange is intensifying the efforts to retain leadership of the markets they started and improve their share of the rapidly expanding futures trade. Inevitably this must mean making greater efforts to become better known internationally, since this is where New York is strong and Chicago has historically been somewhat insular. It is in the words of one trader "a whole new ball game" that is adding a new range of excitement and activity.

Nevertheless despite the current obsession with the new financial markets, it is not being forgotten that the Chicago markets' strength is based on their importance to the farming industry.

The Board of Trade sets the world prices for grains and soyabean. Although these have been overshadowed by heavy surpluses depressing prices and reducing trading activity, they still provide by far the largest volume of business. Trading in soyabean and soyabean products has been well maintained dur-

ing the past year, and increased volume in corn (maize) has more than offset a slight decline of interest in wheat.

A success scored by the Chicago Mercantile Exchange is a big increase in the volume of contracts traded in live cattle, feeder cattle, and live hogs. This has not happened by accident. The Exchange has made great efforts to go out to the farming population and explain the advantages of "hedging" how price protection can be obtained and how to use the futures market.

Much criticism is often levelled at the futures exchanges for the apparently illogical way that the market price moves seemingly at the whim and fancies of speculators with no trade connection. To the outsider the frenzied activity in the "pits" seems an extraordinary method of deciding the prices of vital foodstuffs.

But the fact is that for all the speculative activity and possibly because of it, the markets do provide the price protection and guidelines required by the trade to enable them to operate. Be it a domestic farmer or an international merchanting group. Behind the stories of speculators making and losing vast fortunes, lies the hard core of a sophisticated market mechanism backed up by the latest communication tech-

niques and constant analysis by very sharp minds.

The Chicago markets have been described as the last bastion of capitalism, where the forces of supply and demand can be seen nakedly at work. Trading is, in fact, regulated in a stricter manner than in New York with check systems established over the years, so there is considerable resentment at the extra restrictions imposed by the Commodity Futures Trading Commission.

But it has to be recognised that the world of futures trading is changing in line with the radical alterations in the whole economic structure. Chicago has, itself, been largely instrumental in bringing about the move towards a far greater involvement with the financial institutions than in the past.

J.E.

Brokerage

CONTINUED FROM
PREVIOUS PAGE

believes that the market can be roughly divided in two. At one extreme are what he calls the "execution boutiques" who concentrate on "executing" vast margin, high volume business for a handful of customers. The customer dictates what has to be done and those operators act very much like wholesalers working away at say four or five very large orders. He puts firms such as Stotler and Co. into this category. At the other extreme are brokerage houses like Bache, which concentrate on providing specialist advice to clients, who are often not versed in the ways of the financial futures markets. If a chemical company comes along and wants advice on how best to hedge its future borrowing costs, Bache will sell them one of its "financial futures products."

Even though there are divisions within the various types of markets it is clear that the firms involved in servicing the commodity broking business to serving the financial markets are drawing closer and closer together. This is partly due to force of circumstance. During the doldrums in the securities industry in the early 1970s many brokerage houses found the going very tough and decided to branch out into the commodity broking business to help cover their overheads. This took them into commodity futures trading and then into financial futures trading, and they brought with them some of their major institutional clients who had grown disenchanted with the opportunities for investment in the securities industry.

In many ways there is a close parallel between the recent rapid growth of the stock options market and the financial futures market. For some years the Chicago Board of Trade, America's largest commodities exchange, wondered how it could extend to the securities market many of the attributes of its commodity futures markets. Finally, it set up the Chicago Board Options Exchange in the early 1970s. This has proved a tremendous success and is now the most important options exchange in the U.S.

Meanwhile, the American Stock Exchange, the country's second largest securities market, approached the commodities market from the opposite direction. Back in 1974 when the volume of business sank to rock bottom levels, Amex set up a special products planning division to search out new business opportunities to supplement the brokerage houses' slim trading commissions. It moved into options on common stock and then into odd-lot trading in U.S. Government Securities. Finally, it has branched out into the financial futures market by setting up the American commodities Exchange.

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The interest rate market

INTEREST RATES futures markets in the U.S. are right on target for yet another year of record trading. After eight months the number of contracts traded in the leading counter—Ginnie Maes—was running at well over half a million, showing a rise of more than 100 per cent on the opening eight months of 1977. August was a particularly impressive month with 109,000 contracts traded compared to 75,500 in July and just 61,000 in August 1977.

The background to America's financial markets has clearly added nothing but power to the elbow of the futures markets, as interest rate uncertainties even the more unsophisticated money manager has been forced to take some kind of protective stand. Moreover, the one-way market in interest rates that the U.S. businessman has experienced over the past couple of years, with money costs rising in an uninterrupted line, has made the possibility of hedging via interest rate futures sound very plausible indeed.

At the end of 1976 bank prime rates stood at 6 per cent. A year later they were 7½ per cent, while today they are a full two points higher still. Interest rate movements on this scale are almost unpre-

cedented, and they have driven America's professional money managers to seek almost any available shelter. In this sort of financial climate the futures markets of Chicago are being seen in an increasingly favourable light.

Trading in interest futures began almost three years ago when the Chicago Board of Trade—historically a futures market for trading in grain—received permission to open a market in Government National Mortgage Association pass-through certificates. These GNMA 30-year bonds (known as Ginnie Maes) met with a success that comes close to phenomenal; in their first 20 months of trading, volume totalled something like \$29bn as more than 290,000 contracts were dealt in.

Today five types of security can be traded on two separate futures markets in Chicago, and further additions are in the pipeline. Ginnie Maes apart, the Board of Trade operates a market in 15-year Treasury bills and 90-day commercial paper while its contemporary the Mercantile Exchange trades in 90-day and one year Treasury bills.

The former is planning to start trading in 30-day commercial paper as well as four to six-

year Treasury bills. Longer term, and aimed specifically at international banks operating in London, the Board of Trade could begin to trade in three-month Eurodollar certificates of deposit. Playing its cards closer to its chest the Mercantile Exchange claims to have "other financial futures instruments" up its sleeve.

The success of Chicago interest rate futures in terms of the people that operate the two markets can be judged by the spiralling cost of membership. On the Board of Trade membership has shot up from \$30,000 to \$80,000 in less than a year, while the cost of a seat on the International Money Market (the financial futures operation of the Mercantile Exchange) is currently running at around \$135,000, or roughly twice what it costs to buy

membership of the New York Stock Exchange.

At the moment interest rate futures are clearly a lucrative outlet for the operator, and likely to remain that way so long as volume continues to climb. There are those in the industry that will argue with some force that the vast bulk of America's money managers have yet to lap the futures market, and that, as a result, the sort of services offered by the Chicago markets still have enormous scope for further growth.

One key here is clearly interest rate stability. There have been precious few signs recently that the U.S. financial markets are about to break out of their present turmoil and sail into calmer waters.

By far the most popular futures instrument as far as the inves-

tor is concerned is the Ginnie Mae, a Government-guaranteed security traded in \$100,000 contracts and representing a pool of Federally insured mortgages. Not surprisingly perhaps, the American Commodities Exchange, which is a spin-off from New York's American Stock Exchange, has chosen Ginnie Maes as the underlying instrument on which to base its sort of futures.

Second

The American Stock Exchange is second only to the New York Stock Exchange in terms of size, and its American Commodities offshoot will be the first new commodity exchange to open its doors in New York for almost half a century. The American Commodities Exchange has only been in business since September 12 so it is clearly early days yet. But something like two-thirds of all the Government securities dealers in the U.S. are based in New York, so the new exchange looks like getting away to a solid enough start. It has already had to more than double its membership to 154 seats from an initial 75 seats. At present the newcomer plans to add Treasury bills to its trading list next January with the option to take in longer term Treasury bonds later in 1979.

To illustrate how a borrower's hedge might work let us take a manager of a pension who in the month of March expects to

receive, say, \$1m in funds for investment three months later. As a professional money manager he is responsible for maintaining income and preserving bond values. So as protection against interest rate changes our manager buys bonds with the best possible yield values as soon as his funds become available.

He notes that presently the yield on bonds is favourable and therefore decides to look into current yield values just in case they have eased lower by the time he gets his hands on the \$1m he is to invest. Our fund manager does this by simply tapping the futures market. He goes long, that is, buys September futures contracts to the value of \$1m. By June, yields have declined, as he wisely anticipated, pushing up bond prices and making his actual capital outlay that much higher. Cover against this, provided by selling in the futures market the previously purchased bond futures at the higher price.

Thus our fund manager's losses in the cash market are offset by gains in the futures market, less the cost of dealing. The arrangement has clear attractions. Less obvious perhaps is the chance that futures markets offer for those interested in outright speculation for capital gain. But the prospect is undeniably there—with the risk-reward ratios evenly balanced.

Jeffrey Brown

A miracle of communications

MOVING THE opening New York cotton prices through the London offices of Reuter Commercial Services to many destinations in 1950 was a highly streamlined human operation. And when a fumbling novice, such as myself, was told to "go over to the markets and see what it is all about" the first major stumbling block would be Bill Bullock.

A giant of a man, he ran the market prices communications section like clockwork and had a memory for market message code names, times and destinations which was not far short of miraculous. His advice to all tyros was "keep your eyes open, your ears open, your mouth shut and out of my way".

This last injunction was essential for as the deadline for the New York opening cotton flash message "RUTH" approached, one acolyte would stand next to the teletypewriter to rip out the line of code and rush it over to the Smith-Corona expert to copy.

From this stage the message was split between various outgoing teletypewriter circuits and the total transit time across the market's floor was probably never more than about 10 seconds. There were, and still are, many of these code messages. By tradition the codes were chosen to cut operator time on identifiers with boys' names for daytime traffic and "girls" for nights, as the saying went. Security—essential in the early days of Reuters—was preserved by group coding. But where the whole scheme of things took something of a knock was when market summaries from some distant point came to London in "ables with a large dash of local ingredient."

Seasoned markets men frequently tore their hair over what was sometimes pure gibberish and the neophytes could only wait and tremble. Those were the days when a small, active commercial section was beginning to find attachment as a tail to a large, somnolent and unwieldy dog a serious hindrance to expansion. Now, the economic services side of Reuters this year is likely to contribute as much as £60m out of total world-wide revenues of some £70m. What the promotion of this first figure accretes from commodity information is not known; it is probably considerable, even though financial and banking information looms so large in Reuters' battles for market supremacy, particularly in Europe.

The next step will be to provide a link between the subscriber's own computer and the Monitor terminal, so that essential data from the latter can be fed directly into the local system without the need for transcription and, thus, possible error.

To maintain its world data base service, the company has set up data centres in London, Paris, Amsterdam, Zurich and New York. Direct links to the computers of the various futures markets around the world have been set up to provide an immediate input of some of the more vital data on which the service operates. The market price messages are handled by a large ADX or automatic teletypewriter exchange which is programmed to select messages by order of priority.

One of the pre-requisites for a satisfactory service such as is described here must of course be availability. And this is a problem which began to be widely discussed within the organisation as far back as 1956. It has been achieved, at no small cost, by setting up a ring communications system around the above-named five offices in Europe and providing two transatlantic links, one to London. Thus if there is a break in continuity between two of the European offices, messages around the other way. And if a link with the U.S. goes down, there is a standby in this way, very high on-line times are being achieved, believed to be well over the 99 per cent mark.

Whether or not the organisation will ultimately have its own satellite is a moot point. For the time being it is not under consideration and indeed under the able is preferred because of its slight speed advantage. Meanwhile, a big increase in system capacity is in the offing with the impending move from 2,400 to 4,800 hand operations on the European ring and the links with the U.S.

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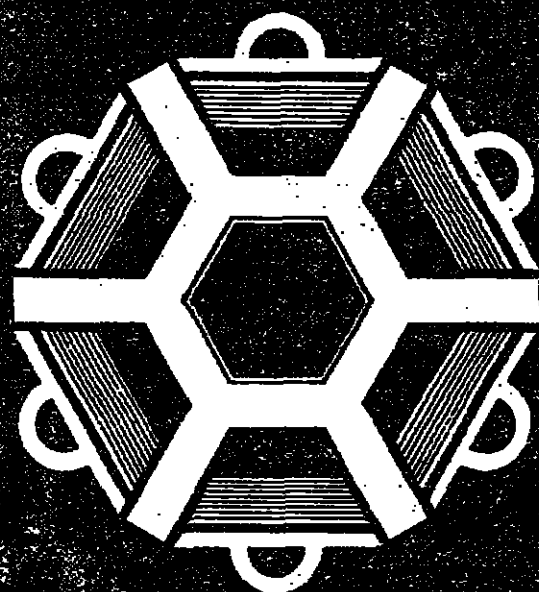
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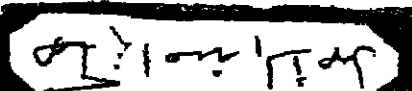
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The Management Page

Nicholas Leslie examines the problems Britain's first computer shop had in raising finance.

Why Charterhouse bought a bit of the Byte Shop

IT WAS barely a year ago that Bill Cummings was cold-shouldered by his bank when he sought support in setting up a new type of computer business. Today, he is secure in the knowledge that he can embark on a rapid expansion with around £200,000 of outside financing available for his first phase of growth.

Cummings's frustration at being refused any sort of help by his clearing bank is perhaps understandable given his contention that he already had a good ten-year trading record from another business. And what was to transform his fortunes was not to be any change of heart on his bank's part but the purest chance—an unexpected meeting with the director of another banking organisation, Charterhouse Development, which turned out to share Cummings's enthusiasm for his new venture.

The business Cummings has set up is called "The Byte Shop" (a byte is a unit of information in computer technology). This is a retail outlet selling a wide range of computer hardware and software independently of the manufacturers. It is an entirely new concept since computer manufacturers have historically marketed their own products direct to customers. The idea behind the shops is to bring computers—and particularly the new micro-computers—within the range of smaller businesses.

Potential

This is the sort of market which big hardware manufacturers have neglected, largely because the returns on their existing type of business have been so good and partly because selling to smaller companies tends to be more competitive and costly. While in the U.S. Byte Shops have taken off rapidly over the past three years, they are unknown in the UK.

Cummings's conviction that there was potential in computer

retail shops grew out of his existing business. He owns Computer Aided Systems, which markets mini-computer systems mostly from Digital Equipment Corporation. This, in turn, evolved out of a company selling traditional business systems such as accounting machines that Cummings started ten years ago on "a wing and a prayer." CAS's turnover in its financial year ending in November will be over £1m.

Cummings had reckoned that this would stand him in good stead when he approached his bank. National Westminster, for financial backing in setting up his first Byte Shop. He could also produce the results of an independent market survey he had commissioned which, he says, showed that a market existed in the UK. Additionally, he had his own impressions, gained from a visit to the U.S. to assess the situation for himself.

National Westminster would not put up anything, he says. Disenchanted, he decided to finance his first shop himself. This involved £40,000 (excluding his research costs), which he took out from CAS's reserves. That was a risky move, he says, because it meant leaving CAS potentially short of working capital, which could have created a cash flow problem. So why didn't he look for cash elsewhere? His answer is that, after National Westminster's refusal, he felt he was "in a position of weakness. I felt I



Bill Cummings, managing director of the Byte Shop, hoping for another four by Christmas

should start myself off and then go back for money in a position of strength." His premise has proved correct, he maintains somewhat cynically, since banks have proved "only too eager" to provide cash now that the first shop has got off to what he sees as a very successful start.

His cynicism does not, however, extend to Charterhouse Development—a subsidiary of

Charterhouse Group—which he feels has shown a willingness to take risks by organising the finance for, and partially backing, this sizeable initial development: he hopes to open a further four shops by Christmas. Charterhouse has also committed itself to supporting Cummings beyond this first phase. For its part, Charterhouse says that "we have never

put so much money into anything so young."

The deal actually takes in three parties—Cummings, Charterhouse and United Electronic Holdings, an electronics components distributor in which Charterhouse Group and another of its subsidiaries, Charterhouse Development Capital, each has a 22 per cent stake. The balance of 56 per cent of UEH is owned by Mr. Bennie Linden, its chairman, who worked closely with Cummings to put together the Byte Shop strategy.

Cummings has had to part with 50 per cent of the equity of his Byte Shop company to get his backing, but is quite happy about this since it allows him to expand fast, with a considerable degree of control over all his shops, and with the long term commitment of Charterhouse (provided, of course, that all goes well). The alternative—a franchise operation—agrees with Charterhouse would have offered him fast growth, but would expose him to the probability that franchisees might soon part company to do their own thing, thus disrupting progress and creating a management problem. Charterhouse and UEH have each taken a 25 per cent stake

in the Byte Shop for which they each paid £25,000. Each has also provided a further £25,000 of loans. Cummings can also call on further cash of up to £100,000 by way of clearing bank overdrafts.

Charterhouse's involvement arose, says Mr. John Hardy, a director, because his company—through its connection with UEH—had been studying the possibility of setting up some kind of computer shop. Some study of the market had been done and a very modest "toe in the water" type of investment was imminent when another Charterhouse director told Hardy of Cummings's Byte Shop situated in Lifford, Essex. Hardy thought it worth while at least to have a look at the shop. The result was a discussion with Cummings that led to his changing his plans and deciding to back Cummings instead.

An agreement in principle was reached within days and the final go-ahead came just a few weeks later. In the interim Cummings made another trip to study the U.S. market and Hardy also made a visit to assess the American experience.

A combination of factors convinced Cummings that a market existed for his type of retail outlet, including a rapid increase in the efficiency in recent years of computer memories, together with growing opportunities for volume production. Also, an expanding number of manufacturers of mini- and now micro-computers "had produced a gap where you had the small products but nowhere to sell them. Now we provide the outlet in our shop."

Full-blown

Cummings reckons that it will be the business rather than the consumer market which will provide him with customers from the outset. This contrasts with the U.S. experience where personal disposable incomes are at least twice the level of the U.K. and where initial growth agrees with Charterhouse would have been led by consumer "hobbyists"—that is, people who buy small computers to use in the home. These have might soon part company to do their own thing, thus disrupting progress and creating a management problem. Charterhouse and UEH have each taken a 25 per cent stake

might use at home to complete unfinished work.

Cummings suggests that UK users are estate agents, solicitors, accountants and most other professional people. He reckons, for example, that a small computer, costing around £3,000 would enable an estate agent to match immediately the requirements of a client to a property he has on his lists rather than going through a laborious sifting process. Then again, a doctor would be able to retrieve a patient's records for screening on a video unit. A businessman could have his accountancy work done on a similar system and retrieve details of sales, purchasing, budgeting and other information.

Right calibre

Cummings does not limit applications to small businesses, either, pointing out that many of the latest ranges of micro-computers are ideal for use within big organisations—often, he maintains, proving more economical than a big central computer for a number of functions.

The price range of full computers which Cummings's Byte Shops will carry at present is £700 to around £15,000; this should amount to be spent on a multi-terminal system for educational purposes. As a result of the Charterhouse backing, Cummings is just about to open his second shop in Southampton and plans are already advanced for the next one, which will be in the North of England.

An interesting feature of Cummings's organisation is the way he is setting about ensuring that the management of each of his shops is of the best. Managers will, he says, need to have a good combination of technical, management and sales skills. In order to attract the right calibre each outlet will be a separate company within the Byte Shop chain, and each manager will have a stake of between 15 and 25 per cent of the shop's share capital. "It will be his shop and he will be building up capital value," says Cummings.

Each manager will invest a small sum for his shares and, should he want to sell out at a later date, the company's auditors will determine the capital value at that time. It is, says Cummings, "a very nice formula," which he feels is fair to each manager. The scheme is based on one which Bennie Linden uses in some of his businesses at UEH. Cummings is not speculating on the size his chain of shops will eventually reach, but on present estimates he reckons that any community of 1m can support one shop—thus London alone could support ten. This clearly leaves room for considerable growth.

BUSINESS PROBLEMS

BY OUR LEGAL STAFF

Adverse possession

What further action is required by the beneficiary from adverse possession acquisition in order to register the additional land on his deeds? In any case I have had some land under my exclusive control for about 20 years, when I bought it, but I have been shown a title deed of 1831 supporting the claim of another. Do I concede that the land is no mine and plead the Limitation Act?

All that is required is evidence of the requisite adverse possession. This may be achieved by means of a statutory declaration or declarations made by a person or persons who can speak of their own knowledge as to the continuous open and exclusive possession and of the absence of any challenge to it. Registration will not be appropriate if the land is not in a compulsory area of registration of title. In your case you can give up the paper title but you should not concede that you do not have title. Instead you should assert title acquired by your adverse possession: that is what Section 18 of the Limitation Act 1939 achieves.

Farewell gift

Can you give me an opinion on the following—my accountants are unwilling to commit themselves?

I am a company director, and expect to retire on October 31. My firm has suggested giving me my company car as a farewell gift. It has a market value of about £1,400 and will have a written-down value of about £850.

(a) If I accept this, will the value of the gift, being over £10, be added to my taxable income for the current year? If so, it will be at my marginal rate, which is fairly high. (b) Will the firm have to pay V.A.T. on this gift? (c) What is the position if I buy the car for a nominal sum?

There are no simple answers to hypothetical questions in this field, as you will have inferred from your accountants' cautious response.

As broad guidelines, however, we offer the following answers: (a) Yes, you will be assessable (at your marginal rate, in effect) on the market value; (b) Yes, it will constitute a taxable supply for VAT purposes; (c) You will be assessable on the market-value-minus-£10, and it will constitute a taxable supply (as in b).

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

EEC's thorny problem of 'fair competition'

BY A. H. HERMANN



THE much-vaunted Competition Department of the EEC Commission has only seven inspectors for fact-finding and fact-checking operations. But this does not mean its reputation is undeserved. For it claims to possess Europe's best and most comprehensive electronic system for the retrieval of economic information, strong data on development in 3,000 separate markets, and the pricing of 500 selected products. The system can pick up erratic developments which appear economically unjustified—be they sudden changes in market shares, or large differences and changes in prices—may signal that secret restrictive agreements are at work, or that monopolies or oligopolies are abusing their market power.

The Competition Department obviously relies on the computer a great deal, particularly in its latest drive against certain pricing policies and distribution systems which, in its opinion, infringe the hitherto neglected Article 86 of the EEC Treaty. This provision of the Treaty prohibits any improper exploitation of a dominant market position within a substantial part of the Common Market in so far as trade between member states is liable to be affected by it. Article 86 gives a number of examples of such improper practices. The first of these is

the direct or indirect imposition of unfair purchase or selling prices or of other unfair trading conditions.

For some 15 years the Commission, which enforces the competition rules of the Treaty, has almost completely neglected the possibility of policing the behaviour of monopolies in the interests of consumers. Instead it attempted to use Article 86 to stop mergers which would reinforce dominance. But recently it turned its attention to pricing policies and selective distribution systems. By its Chiquita decision it required United Brands—the former United Fruit Company—to sell bananas to importers in all Common Market countries at the same low price which it changed to Irish importers.

United Brands appealed to the European Court and the Court, though dissatisfied with the fact-finding done by the Commission, made an important ruling about fair pricing. Dominant market enterprises, said the Court, must not ask for a higher price than is reasonable in view of their costs and they must not take advantage of the higher price levels which exist in some Common Market countries but rather leave any extra profits to be made to importers and distributors who bear the risks of the local market.

The whole question of EEC law and policy on pricing and distribution systems was discussed last week in Brussels at a conference attended by a large number of marketing managers, company lawyers and legal practitioners. Convened by European Study Conferences, the two-day seminar featured several eminent speakers, including university professors, Commission lawyers and legal practitioners specialising in this field.

Though it was an excellent and extremely useful conference, those who came hoping to learn what is, and what is not, allowed, discovered quickly that this was an impossible dream.

The lecturers either confessed that they did not know what the law is or differed widely in their assessment of the Court's judgments and the Commission's policy on pricing, selective distribution systems and the appointment of exclusive distributors.

After these initial disappointments, it was still hoped that some new light would be thrown on the subject by Dr. Willy Schlöder, Director General of the Commission's Competition Department. He assured his audience that the Commission did not intend to become a price control office. His department would proceed only against unfair prices charged by companies dominant in their markets. When asked whether it was not unfair to British companies to prevent them from charging higher prices in the more affluent member countries, he said that only a very few British companies would fall into the market dominant category and that in any case the Commission would not treat as unfair prices which the companies concerned could not justify by their costing evidence, unless these prices were "unreasonable" and were charged by companies with large market shares.

Dr. Schlöder is a charming man, and an amusing speaker but the notion of exorbitant prices cannot be found in any of the Commission's decisions or Court's judgments. The definition of market dominance of both the Commission and the Court has been steadily moving away from the yardstick of market shares.

British Petroleum, with only about 6 per cent of the Dutch

market, was found by the Commission to be market dominant and infringing Article 86 because at the time of the oil crisis independent distributors were in a weak market position—and the European Court remained silent on this point when allowing BP's appeal. A Swedish firm was found to be dominant because its distributor depended on it for spare parts.

It was quite a relief to have to leave the rough and tumble of the Sheraton Hotel, where the conference was held, and to ascend to the august thirteenth floor of the Berlaymont, the great winged office of the EEC Commission. The thirteenth floor is inhabited by the Commissioners and members of their cabinets. The silence and peace of the place immediately make one feel that this is another, better world, undisturbed by the greedy rush of marketing managers and confusing argumentation of business lawyers.

It is clearly bad form to mention the uncertainties plaguing EEC competition law and policy when talking to one of the Commissioners, worse than going fox-hunting in a crash helmet.

The basic problem with all this is that the Commissioners have delegated their collegiate authority in competition matters to one person—the Commissioner responsible for competition, Mr. Raymond Vloeberghs.

This delegation of authority seems a practical and justifiable measure when one thinks of the political pressures to which individual Commissioners would otherwise be exposed whenever an investigation against an important group of companies is started. It is less understandable why it was from the Press that some Commissioners learned last week about the formal investigation started by the Competition Department into the market sharing arrangements of the steel cartel operating under the auspices of the Commission. This recommends production quotas and minimum prices for certain (though not all) products of the steel industry.

And it would certainly be a great pity if this delegation of collegiate authority should prevent the Commission from dispelling the dense legal fog which threatens to slow even further the already sluggish European enterprise.

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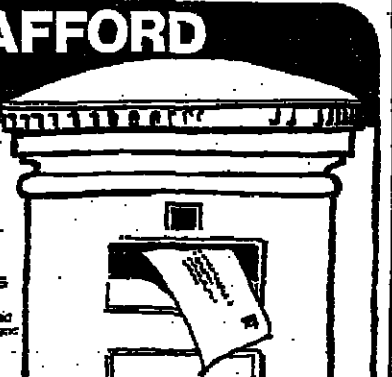
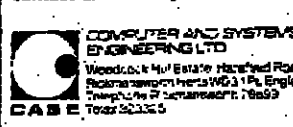
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Television

Tumult on the moor

by CHRIS DUNKLEY

Inevitably one approached the seemingly endless supply of new production of *Wuthering Heights* with trepidation. Not only is the book which has already been adapted several times for television, and for the stage, and for cinema, and (and) one of the most powerful novels in the English language, but the most recent manifestation of Emily Brontë's extraordinary story is still howling out of commercial radio stations all over the country: that weird song delivered as from Cathy Earnshaw, in which the bizarre Kate Bush repeatedly demands to be let in at Heathcliff's window.

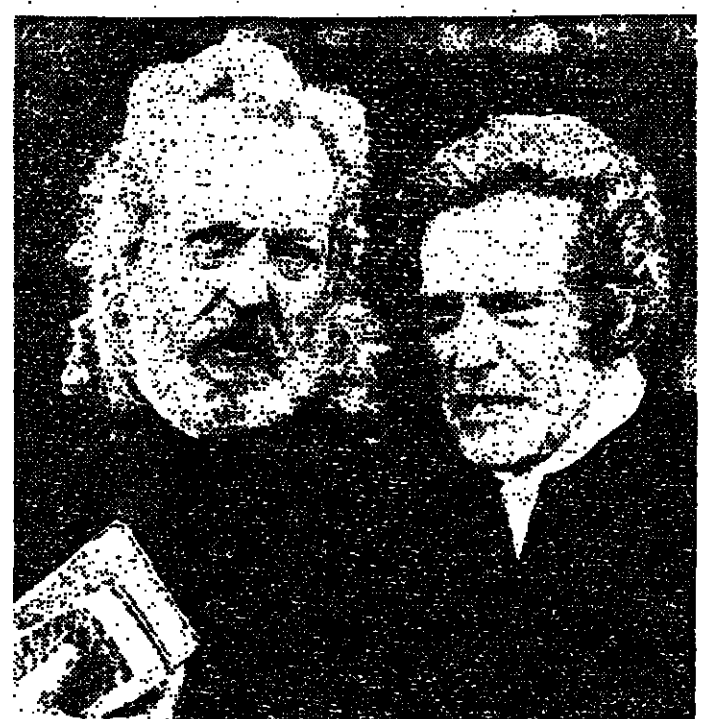
Sure enough, this new television version, directed by Peter Hammond, turns out to be just as mannered, almost as crazed, and nearly as wild-eyed and frenetic as the Kate Bush rendering which it was impossible to shift out of the back of the mind as one watched.

And yet, surprisingly, the new television version works. Or rather it can work, if you happen to like a bit of the gothic, are content to indulge the director, and are pretty familiar with the book or else willing to let narrative clarity go by the board.

For some reason producer Jonathan Powell chose to have different bits of his five-part adaptation dramatised by different writers. Thus Part 1 was by Hugh Leonard and Part 2 by David Snodgrass. Such fragmentation hardly seems designed to produce consistency or cohesiveness (though a lot of other television does in this way, of course) but no doubt there are viewers who have not read, or have forgotten the book, who have been thoroughly confused about the plot and about when the action has been flashing forward and on back.

Such difficulties would have been quite predictable, whether for or perhaps it was better for Hammond, or the writers, or all of them decided to use any caution, or any piece-over narration, or even any explanatory phrases in the dialogue to help the plot past serious mistakes. There has been the occasional technical device such as the slow mix in Part 2 taking us from the faces of the children playing Cathy and Heathcliff through to those of Kay Adhead and Ken Hutchison, two more new examples of

still time for that; and one great quantities of them are back, even if the American ones are beginning to look emasculated. Most of last week's *Stars and Gales* consisted of film directors from the young Travolta-style dancing with plenty of pleasingly shaped female bodies in satin shorts and habitually used leaves, thorns, torn curtains, broken glass and



Paul Dawkins and John Collin in 'Wuthering Heights'

so on in the foreground to frame the human figure beyond. But apart from occasionally conveying a sense of eavesdropping there seems no particular point to its repeated use here.

That aside, *Wuthering Heights* offers the equivalent of a thoroughly good read. (Fast cars through big piles of cardboard boxes next, and chasing cars with helicopters. Thames's home-grown *Sweeney* on the same night came up with its most subdued and boring episode yet, all about the mid-life crisis of poor old Red, the burglar.)

And tacitly admitting to a complete failure of the imagination, ATV (or rather ITC, its international body with a mid-Atlantic mentality and an appe-

die for programmes with all the spice and variety of airline meals) has brought back *The Saint* but with a complete lack of swank, swagger or style. They are reduced to borrowing from *The New Avengers* the habit of repeatedly featuring a Jaguar XJ6 to say "new" and "quality" because everything else about the production says "old" and "rubbish".

However, I have said before, and will no doubt say again before I give up this column, that British television with three channels a day to fill, 365 days of the year, would be working miracles if it could come up with even as many as half a dozen really original series and an equal number of original single plays, comedies, and so on each year.

Wuthering Heights is fine entertainment, and it is not alone. BBC's *A Horseman Riding By* and London Weekend's *Lillie* both show distinct promise. It goes almost without saying that all three series are transmitted on the same night (Sunday) though thanks to the Friday repeat of *Wuthering Heights* it is possible to see all three.

A Horseman Riding By looks set to prove yet again (*The Forsyte Saga* was one of the BBC's first proofs and is still the clearest example) that books from the second rank make better television than adaptations from great literature. This R. F. Delderfield story of a rural community in Edwardian Devon and its young squire—all pony traps, bustles and ee-ah zoom—might almost have been written expressly to satisfy the escapist wants of urban television viewers in the late 1970s.

Lillie, written for television by the Edwardian specialist David Butler (*Disraeli* and *Edward VII* were both his), is a yarn about yet another of the Prince of Wales's mistresses. Again, the subject is about as hackneyed as possible, but again it does look like making good, though so far very slow, television.

Bush

The Transfiguration of Benno Blimpie

by B. A. YOUNG

You do not see little fat Benno in the squalid scenes of his family life. His tough father takes time off to upbraid him for being fat and soft and solitary, and his shrewish Neapolitan mother tries to stop him eating so much as she bemoans his miserable lot. His grandfather shoots him away, so that he can pursue his attempts to rape a nymphomaniac school-girl, attempts that end with his murder and the theft of his month's security cheque. But Benno is not there.

He is lying in the middle of the stage in white overalls, as fat as the Michelin man, and his first words, like his last, are: "I am eating myself to death." As he does so, he fills in the spaces in the family pattern that are not shown in the other scenes. Though he is the butt of everyone's contempt and ill-humour, he has in fact been endowed by God (the family are practising Catholics) with an instinctive appreciation of fine painting, perhaps even a talent for it. This interests no one but himself. The world thinks he should be playing ball games of various kinds.

And this is the theme of Albert Innaurato's moving little play. It is not a new theme, the difficulty of sustaining an artistic leaning in a philistine world, but Mr. Innaurato's treatment of it is novel and persuasive. Poor Benno, to whom Robbie Coltrane gives more feeling than you would think likely as he lies there like a fat chrysalis, decides that the talent he has made public, the talent for eating too much, must provide him with his death-sentence; you see him literally beginning to eat himself, having first been marked out into joints and provided with a meat-cleaver.

The use of the analogy is what distinguishes the poetic young American writers from the political young British ones; and



Robbie Coltrane with Lynda Marchal and Vincent Marzello

in spite of the unlikely nature of some of the action and the coarseness of the family's language, poetic is what this play certainly is. Mostly so in Benno's dialogue, where we are free from the sordid realm of reality and move freely in the territory of the mind. The play is admirably performed by a well-cast company under the direction of Simon Stokes. Vincent Marzello and Lynda Marchal play the father and mother. Michael Poole is the creepy old grandfather. Madeline Church the 13-year-old. The designs—four contrasted areas lying side by side—are by Gemma Jackson.

Covent Garden

Das Rheingold

by RONALD CRICHTON

The later parts of the second Ring cycle have cast changes but there were none in Monday's *Das Rheingold* which leaves only about a third of the original cast. One felt this on Monday with in forecasting the sweep and scope of the whole tetralogy while keeping the scale of this *Rheingold* within preudial bounds. *Rheingold* is "early" in two ways — in the context of Wagner's work as a whole and as part of the Ring whose writing and composition took up so much of his career. Some of the music (Freia's, especially) has a kind of freshness which was not to reappear, and this aspect of the score was finely realised.

With a set like Svoboda's of the Friedrich production it is presumably inevitable that the

first two parts will be given on consecutive evenings. Yet this inevitably entails a certain amount of holding-back for the singers' sake, sacrificed to characterisation without making more effort. Rachel Yakar's Freia earns her a chance to show Covent Garden audiences what a charming and stylish artist she is. Hermann Bech's Donner produced a volume of sound worthy of his mighty hammer-blow. Patricia Payne's Erda was imposing (if only the Coliseum Erda was able to appear like this at the front of the stage), the remaining performers were much as before, though the Rhinemaidens blended poorly in the first scene, where the mixture of amplified and unamplified sound is very nasty.

Festival Hall

Khachaturian

by DAVID MURRAY

The death of Aram Khachaturian last May seems to have lent new interest to Armenian music, and on Monday the Institute of Armenian Music presented a memorial concert for him. Loris Tjeknavorian conducted the London Symphony in the very early First Symphony, the familiar Violin Concerto and some of the innumerable dances from *Gyghak* (omitting, with admirable restraint, the *Sabre Dance*). To all the music Tjeknavorian brought pressing energy and a precise beat; in the nature of the case most of the concert had to be extremely loud, though we had the revised version of the Symphony with a quiet ending to the first movement, and Tjeknavorian made a generous cut in the frenzied *Gyghak* Leghinka.

There was doubtless a felt need for a concerto which would combine the direct appeal of a

Russian ballet score with a good deal of fierce *démolition* bowing on the strings, and Khachaturian hit the mark resoundingly. It was interesting to learn from the programme that the second subject is "imbued with that spirit of melodic contour, modal inflexion and rhythmic shape typical of Armenian folk-song." I had always supposed it came straight from Grieg. Ruggiero Ricci attacked the work with the proper gutty ferocity, and the cajoling way with the high-register keening too. Apparently the melodies of the slow movement "look to the example of the *askus*," though the prominence of the climactic motif might seem to be the finale of *Madama Butterfly*. It would be pure fantasy to detect "Rustles of Spring" in the main Allegro vivace tune, and in any case the composer throws so many other things into the pot that it would

be inept to seek for one single inspiration for the music. Khachaturian remarked: "The most important thing in a composer is his personality, his aura"—and certainly his own manner is as identifiable as, say, Mantovani's. It was interesting to hear the elements of the manner being tentatively assembled in the First Symphony, his graduation exercise, and more interesting still to find that its first movement is indeed articulated more or less symphonically. (The structure begins to crumble thereafter, and the hectic Finale needs a lot of leaping Georgians to hold it together.) Tjeknavorian clarified such polyphony as there is in it quite expertly, and the London Symphony played up with shameless glee. A particular pleasure in the Concerto, besides Ricci's pancha, was the ethnic warbling of Roy Szwed's clarinet behind him, exotic and exuberantly wild.

New York Opera

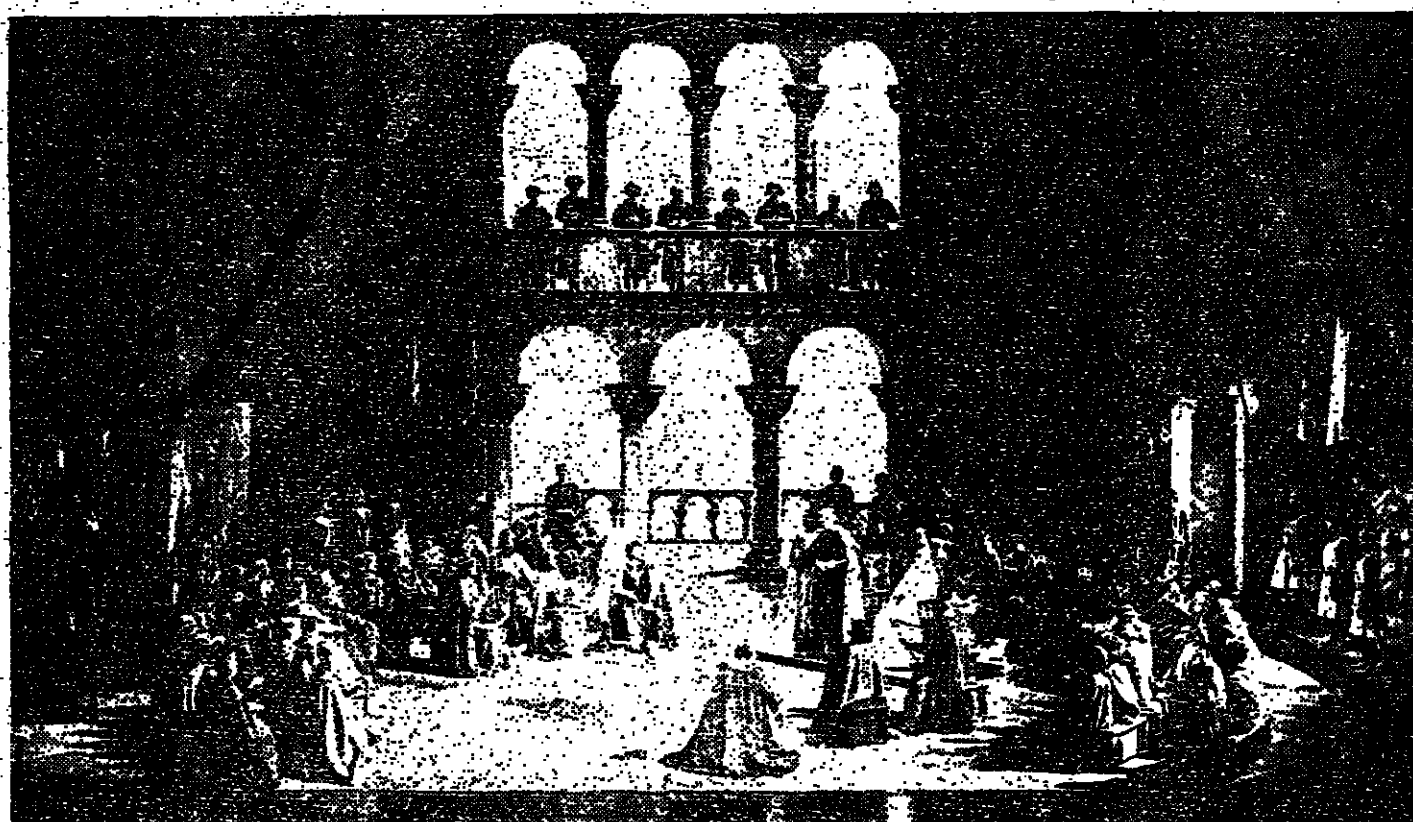
Opening productions

by ANDREW PORTER

In an age of producer's vanity and folly, from which Wagner has been a particular sufferer, the Metropolitan *Tannhäuser*, produced by Otto Schenk and designed by Josef Svoboda, shines as a beacon of good sense, romance, beauty, eloquence, and concern for what the composer intended. It opened the season with some new singers in principal roles. Teresa Zylis-Gara's Elisabeth is admirably conceived, at once impetuous and dignified. Her voice is a little slow to speak; every sustained note tended to be a swell, and the Prayer lost impetus. But her tone was fresh, full, and pure, and she gave a very pleasing performance. Tatiana Troyanos was a rich-voiced Venus. Neither lady's German was quite sharp-cut.

Tannhäuser are not thick on the ground today, and when James McCracken fell out the Met was lucky to secure Richard Cassilly. His timbre is often develops an ugly snarl but—know from Covent Garden—his intellectual and dramatic command of the role is complete. Kurt Moll made his Met debut as a grandly imposing Hermann. From last season there was Bernd Weik's ardent, romantic Wolfram, spoiled only by some out-of-tune patches; and Kathleen Battle's sweetly sung and winningly-phrased Shepherd. The chorus was strong but not yet quite as smooth and full of tone as it has been. Under James Levine, there was richer orchestral playing than any I heard in Britain's theatres this summer. Levine's Wagner moves so well that in this uncut version there were no moments when attention flagged.

I described the production last season. From curtain-rise on the Venusberg bacchanale to the final tableau it faithfully follows Wagner's instructions—not as a museum reconstruction of quaint stage-craft and lighting. It recreates the pictures, the imagery, the actions described in his score and in his production book and, so-to-speak, built into his score. Instead of contradict-



The Hall of Song in the Met's 'Tannhäuser'

ing the music, it reveals the sense of it. I doubt if one could today achieve a superior performance of the piece. And I'm sure one could not see it better done.

The second night of the season was a new production of *Buddha* by John Dexter, designed by William Dunne, conducted by Raymond Leppard. It is a striking and spectacular presentation, played on a cross-section of the *Indomitable* which can rise to reveal five decks one above the other. Peter Pears's Captain Jack is even more convincing than it was 37 years ago. James Morris makes full sense of Claggart for the first time. Richard Stilwell on the first night rather overdid

the boyishness by which he sought to warm his naturally reserved stage personality; he came dangerously close to principal-boyishness. I'll keep back a fuller review until I have also seen the new San Francisco production of the opera.

The New York City Opera began its season with a run of Victor Herbert's *Naughty Marietta*, which played to full houses. Then came *Andrea Chenier*, with the producer-designer team of Nathaniel Merrill and Robert O'Hearn. It was decently done, with Marilyn Zschau (last season's hit as Minnie in *La fanciulla*), Emanuel Mauro, and Richard Frederick in the main roles. But Chenier

—which is formally, harmonically, and politically all over the place, a sprawl of ingredients that Puccini later tidied into *Tosca*—needs a Caniglia, Gigli, and Becchi, or a Tebaldi, Del Monaco, and Bastianini to set the pulses stirring. The plain presentation might have suited a serious opera about the French Revolution, but in this work the

great issues are treated as little more than local colour, and so it needs more help than it got here. The next new production was of Rossini's *Il turco in Italia*, with Beverly Sills and Donald Gram. Or, rather, of *The Turk* in Italy—translated into English by me, and so I must leave William Weaver to report on it.

Arts news in brief

The Arts Council has offered Photography Awards to seven photographers for the year 1978-1979. With this scheme, now in its sixth year, awards are made to enable photographers to take the time to undertake specific projects or to continue work in progress.

David Larcher, of Stanhope Gardens, London, SW7, has been offered an award to continue his work on photographic phenomena. Isabella Jendzejczyk, who lives in North Shields, has been offered an award to continue her work on the urban and industrial landscape of the Newcastle area. An award has been offered to Boyd Webb, of Henage Street, London, to enable him to continue his work in staged studio scenes.

An award has been offered to David Chadwick, of Withington, Manchester, to enable him to complete a project in the city of Manchester, documenting its people and events. Andy Earl, of Matlock, Derbyshire, has been offered an award to complete a project on "society" events all over the country. An award has been offered to John Davies, of New Otterton, Norfolk, for a landscape photography project, "Edward Hawks, of East Ham, London, has been offered an award to complete a collection of photographs and to publish them.

Other attractions include Kent Opera's production of Monteverdi's *Orfeo* staged by Jonathan

Webber are set to become the first lyricist-composer team to have three musicals running simultaneously in the West End. A new production of *Joseph and the Amazing Technicolor Dreamcoat* opens at the Westminster Theatre on November 28 with Paul Jones as Joseph.

Erwin is at the Prince Edward and Jexu Christ Superstar at the Palace, Cambridge Circus, last night became the longest running musical in British theatre history.

BBC 2 is devoting an unusually large amount of time to arts programmes—in particular musical ones—in this autumn and winter. Each Saturday night in November, performance will present opera, ballet or a concert.

This month Welsh National Opera's production of Janacek's *Jakobínův Case*, with Elisabeth Söderström as the protagonist, will be shown. In November, Scottish Opera offers *Dido and Aeneas*, from Aix-en-Provence, with Dame Janet Baker, while a film version of Puccini's *Tosca* features Kabalianska, Domingo and Milnes. During December, the Edinburgh Festival, directed by Everding and starring Ron Kollo, tops the bill.

Other attractions include Kent Opera's production of Monteverdi's *Orfeo* staged by Jonathan

Miller; Britten's *Albert Herring* in a co-production with PBS of America from St. Louis; Wagner's *Meistersinger* from Bayreuth, produced by Günter Friedrich from Stockholm; Peter Hall's staging of *Così fan tutte* from Glyndebourne; a triple bill from the Royal Ballet, Covent Garden; Roland Petit's ballet version of *Cyrano de Bergerac* from Marseilles; and Glen Tetley's *Pierrot Lunaire*.

On Sunday evenings, The Lively Arts features programmes on Joan Miró, Joaquín Rodrigo, Evelyn Waugh, Isaac Tolstoy, Maria Callas, Luciano Pavarotti, Paul Robeson, and Itzhak Perlman.

For the past five years the directors of H. M. Tennent have presented, in memory of Hugh Binkie Beaumont, £350 to the most promising young director outside the West End.

This year's award went to Bill Alexander, for his production of *Class Enemy* at the Royal Court and productions for the RSC at The Warehouse and The Other Place.

Helping Tennent's directors, Arthur Cantor and Nick Salmon, to select the winner were critics Michael Billington (Guardian), Ann McFarlane (Time Out), Irving Wardle (Times), B. A. Young (Financial Times) and TV producer, Barry Hanson.

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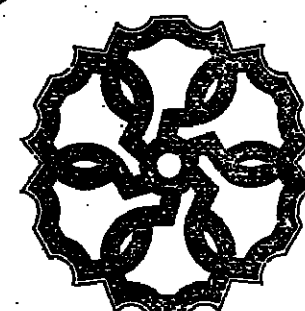
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FINANCIAL TIMES

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Wednesday October 4 1978

Common sense arithmetic

PAY POLICY may or may not be dead, but anti-inflation policy remains, and unrestrained wage claims against a background of firm fiscal and monetary policies will do the greatest damage to employment. If workers insist on pricing themselves out of jobs, there will be more unemployment, less growth and lower living standards. Realistic wages are essential if growth is to be sustained.

That was the heart of the Prime Minister's message to his opponents in the Labour movement yesterday—a somewhat chastened movement after Monday's excesses, which had the sense to resist attempts to "democratise" the party by giving its self-appointed activists life-or-death powers over MPs. A government, as Mr. Callaghan reminded them, is responsible to the electors, not the party.

Smudged

This is robust common sense, and the Prime Minister's firmness must be applauded: but it is a pity that in one important sense he smudged his placard. He and the Chancellor have spoken at the conference as if arithmetic. Finally, the government's monetary policy must avoid offering yet designed to reduce inflation more political hostages to secure were an alternative to pay a policy which is in everybody's interests.

Cannot wait

Meanwhile, monetary and fiscal decisions need not wait for the outcome of any such bargaining; indeed, the first and for the country. It was bad reasoning then, and it is bad now.

The fact is, of course, that sound monetary policy, and a fiscal policy consistent with monetary objectives, are essential at all times if inflation is to be avoided. The idea that sound policies are simply an "excuse" to deterrence deceives both unions and governments. The unions are led to believe that sound policies are anti-union, and should be resisted politically, as Mr. Heath did, that given a pay policy, they can safely kick over the monetary traces.

So long as these beliefs are kept alive, the educational job which a pay policy must at heart achieve is far more difficult than it need be. The lesson of recent years is as clear as it possibly could be: monetary explosions, whether of wages or credit, do damage.

Mr. Callaghan's message would have been still more effective if he had said simply

that the Government must stick to policies which demonstrably work, and asked again for union co-operation in securing the best results from those policies.

So far as pay policy is concerned, it is now clear that the whole fracas will result, as we have suggested, in urgent efforts to get co-operation between the Government and the TUC on a more flexible approach. Given the damage threatened by the present rigid 5 per cent rule, but the search for such compromises is always dangerous. One danger is the emergence of a formula which looks reasonable, but which in fact drives up costs and compresses profits. Any percentage-plus-productivity formula courts this danger.

A looser approach, centred on a credible target for reduced inflation, and asking the TUC to oppose demands clearly inconsistent with this, would probably be more promising, as the CBI has suggested, and a form of the bargaining round would be more productive than any amount of over-simplified spoken as if arithmetic. Finally, the government's monetary policy must avoid offering yet designed to reduce inflation more political hostages to secure were an alternative to pay a policy which is in everybody's interests.

That tradition dies hard. It persuades her brood to eat.

An EEC aspect to mergers

THE GERMAN Federal Cartel Office's ruling against British Petroleum's deal with Veba, the West German energy group, was the third decision this year on which attempts at leading British firms to acquire a controlling interest in another EEC company have been blocked by national authorities in West Germany or France. Last week, the French Government frustrated Lucas Industries' agreement to buy from the U.S. Bendix group the remaining shares in Duccellier, the French electrical components manufacturer; while earlier this year the German Supreme Court confirmed the Cartel Office's prohibition of GKN's acquisition of Sachs, the leading German motor component firm.

The three cases are not all on the same footing. The BP-Veba and GKN-Sachs deals were banned on anti-trust grounds, while Lucas's bid for full control of Duccellier ran up against the French Government's plans to build up a major French-controlled motor components grouping. Indeed, whereas the German authorities were motivated by a desire to head off a potential reduction in competition, it could be argued that the French Government's insistence upon a "French solution" for Duccellier will result in a diminution of competition by reason of the association which already exists between Ferodo, the French company which has now undertaken to buy out Bendix, and Bosch of West Germany.

Concern

A common thread can however be seen in all three decisions. They were taken in the light of considerations wholly national in character: if there were any arguments to be made from a wider European perspective, they were not or could not be considered. As a result, a further obstacle may have been added to the thicket of legal and tax difficulties and the problems of reconciling differing managerial styles which have

lain across the path of cross-frontier mergers within the EEC. If economic integration in the Common Market is to lead, as many believe and expect, to some restructuring of industries on a Europe-wide basis, it will inevitably involve the larger companies which arouse most concern among the makers of national anti-trust and industrial policies.

Wider consideration

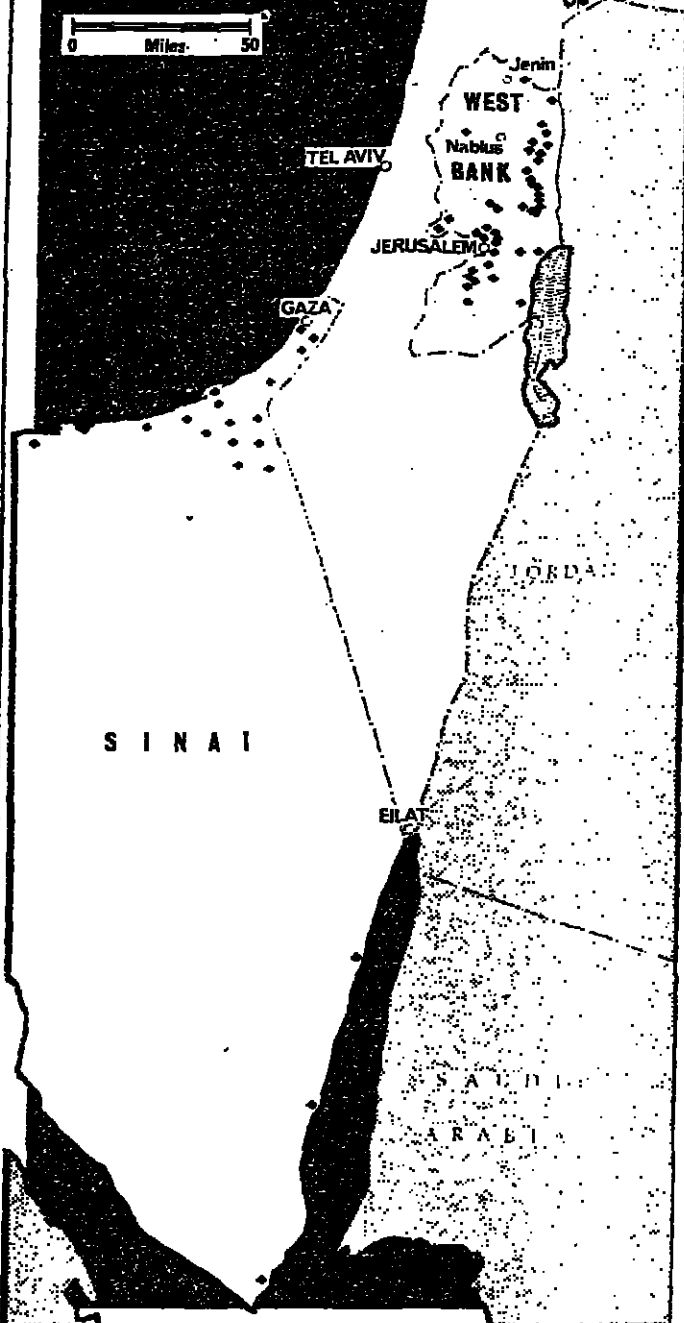
Motor components is a good case in point. The emergence of larger and stronger European component makers is desired by their customers, the vehicle manufacturers; it could help the European components industry to develop markets in the U.S., and in the course of time it could loosen up the national monopolies which have been built up in the past.

This is not something which would necessarily be facilitated by an EEC mergers policy.

The Veba and Sachs decisions reflect a general tendency towards a more rigorous approach to industrial concentration on the part of national authorities, not only in West Germany where a new Competition Bill is now before Parliament, but also in Britain.

France (where a system of merger control was instituted for the first time last year) and in several other EEC countries where the need for a mergers policy has been under discussion. There would therefore seem to be a case for developing ways in which wider European considerations could be weighed in the administrative procedure which at one stage or another forms part of the merger control system in the three EEC countries presently operating one. It may be right to be more sceptical about the alleged benefits of mergers, but it would be a pity if some of the benefits that might accrue were to be lost because competition policy was being interpreted on too parochial a level.

ISRAELI SETTLEMENTS IN THE OCCUPIED TERRITORIES



Israelis acquiring a taste for the forbidden fruit of peace

SURROUNDED as the is difficult for the settlers to accept that the government has been by the original plan of swapping the captured Arab land for peace. Indigestion caught up with the nation only in 1972.

The Egypt-Israel pact agreed

It proved to be the case in 1967, when the appetite for the territorial booty of that war overpowered the original plan of swapping the captured Arab land for peace. Indigestion caught up with the nation only in 1972.

BY DAVID LENNON in Tel Aviv

at Camp David may have left few problems unresolved, but the framework agreement on West Bank and Gaza Strip largely ignores the real problems.

Israel believes that the West Bank is part of the biblical land of Israel, as well as being uncomfortably close to the densely populated coastal plain of Israel.

To Mr. Begin and his now thoroughly confused followers, the idea of giving up the West Bank has always been inconceivable.

At the same time, they are aware that the 700,000 Palestinians living on the West Bank simply will not fade away and cannot be driven out by force. It was this which led Mr. Begin to produce his proposal for limited local self rule for the Arab inhabitants.

His autonomy plan, as it is called, was first presented immediately after President Sadat's astonishing journey to Jerusalem last November. At Camp David it was refined a little to give Israel slightly less control, and the Arabs slightly more.

But it does not come near to meeting the Arab demand that Israel withdraw completely from the occupied areas. And the emotive issue of Israeli control of Arab Jerusalem, which was annexed in 1967, remains as intractable as ever.

As long as King Hussein and the PLO reject the Camp David agreement, there is little likelihood that any West Bank or Gaza public figure would risk assassination by agreeing to participate in implementing the autonomy plan.

The Palestinians of the occupied territories want their independence free of controls by either Israel or Jordan and they see the Camp David agreement as merely offering a sop to these aspirations without fulfilling them.

Mr. Begin has already weathered the wrath of his own right wing, who for over 30 years followed his hard line from Palestine guerrilla policy espousing the right of Jews to control all the biblical land of Israel.

Almost half of the Knesset members from his own Herut party, the largest faction within the ruling Likud bloc, refused to vote in favour of the Camp David agreement in the Knesset last week.

The most difficult problems still lie ahead for the Americans have still to find ways to bring the Palestinians, the Jordanians and eventually the Syrians into the peace-making process.

The first step along this road would be to persuade Israel not to build any new settlements on occupied Arab territory. Such a development would be the starting point for persuading the Palestinians that peace is possible for them, too.

It is this new mood which creates the hope that a comprehensive settlement may be reached.

Depoiting Palestinian leaders blowing up their houses, arming them in their thousands, hitting their training base on the borders and indiscriminate bombing of their refugee camps have all failed to make the Palestinian problem go away. There have been right wing, who for over 30 years followed his hard line from Palestine guerrilla policy espousing the right of Jews to control all the biblical land of Israel.

This pattern will continue if members from his own Herut party, the largest faction within the ruling Likud bloc, refused to vote in favour of the Camp David agreement in the Knesset last week.

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THE MIDDLE EAST AFTER CAMP DAVID

PEACE NEGOTIATIONS between Egypt and Israel are due to start this month in Washington and the Carter Administration is still publicly optimistic even about the intractable issues of the West Bank and the Gaza Strip.

But the inevitable problems in the wake of the Camp David agreements are fast crowding in. Some 100 Palestinian leaders from the West Bank, including several mayors, this week rejected the limited self-government offered them under the Camp David agreement, while at the same time the U.S. Administration is faced with the increasingly difficult problem of how to bring Jordan into the West Bank negotiations, as explicit provision for Camp David, without undermining those negotiations before they even start.

King Hussein has told the U.S. that, before he sits down at any bargaining table, he wants clarification of the Camp David agreements on a range of points he considers crucial to Arab and Palestinian interests, and a commitment from the U.S. that it will act as a "full partner" in any negotiations to set up the proposed new transitional government on the West Bank.

In an interview broadcast on American television on Monday the King said he had been taken aback by the speed with which Egypt was moving ahead to conclude a separate treaty with Israel. He had not been properly consulted over Camp David, and therefore felt "no moral or legal obligation" to join in any subsequent West Bank negotiations.

As examples of the pointed questions he has been putting recently to Mr. Cyrus Vance, the U.S. Secretary of State, and his roving Middle East ambassador, Mr. Alfred Atherton, King Hussein queried why the transition period had to be as long as five years; whether the geographical definition of the West Bank should not include Israeli-

Now the host of problems starts crowding in...

annexed east Jerusalem: why there was no commitment on the future sovereignty of the West Bank as there had been on Sinai; whether there would be any Israeli troops or settlements on the West Bank after the transitional period, and so on.

The King called these "honest questions," to which he wanted "honest answers" from the U.S. Officials here take the tenor of these questions as a sign of genuine interest on King Hussein's part. But they are equally aware that blunt answers at this stage would dispel the deliberate vagueness in the Camp David framework agreement as to undermine the negotiations from the outset.

In the U.S. view, there is no great harm in letting King Hussein sit out the initial round of West Bank negotiations. Egypt and the U.S. for that matter, can carry the baton for Jordan in settling the initial issues: the scope of the new "self-governing authority," the means by which it will be elected, the partial pull-back of Israeli troops, and the abolition of the Israeli military government.

But when the elections are actually held, the U.S. would like to see Jordan use the fairly

considerable influence it still has over the territory it ruled until 1967 to encourage West Bankers to participate.

On two issues, the U.S. believes it can provide some reassurance to Arab sceptics. U.S. officials regard as "idiosyncratic" Mr. Begin's view that at Camp David he committed Israel only to freezing new West Bank settlements for the duration of the peace talks with Egypt, due to be completed within three months. This view, they say, is not shared by other Israeli Ministers, notably Mr. Moshe Dayan, the Foreign Minister. It was, the Americans say, clearly established at Camp David that the moratorium would last until the self-governing authority for the West Bank was set up, and thereafter the Arab majority on that body would be in a position to control any new influx of Jewish settlers.

Central to the future behaviour of King Hussein and, to a lesser extent, of President Sadat, will be the attitudes taken by Syria and Saudi Arabia. That Syria would try to orchestrate some kind of Arab condemnation of the Camp David accords was considered inevitable in Washington. But fear that if Lebanon were U.S. officials say that much depends on how strongly this condemnation is worded. They deduce from the detailed interest in the Camp David agree-

ments shown by President Assad in his recent meeting with Mr. Vance that Syria is not yet ready privately to dismiss them out of hand.

The Saudis, for their part, have made known their pique at not being consulted by Egypt and the U.S. over Camp David. But officials here scoff at reports that Saudi Arabia might retaliate by cutting off all aid to Egypt, which is at least \$1bn a year, though they concede there might be a slowdown in the flow of this aid. The Saudis, the Carter Administration is confident, have too great a stake in the wider anti-Communist role of President Sadat in the region, and too great a political and economic stake in the U.S. to take any such drastic action.

The U.S. strategy now seems to be essentially to keep the Middle East in a holding pattern, while Egypt and Jordan sign a peace treaty and the first talks on the West Bank start. If necessary, Jordan and with only a Palestinian West Bank President Carter's call last year for a new international mediation effort to resolve the crisis in Lebanon should be seen in this context. What lies behind it is an American fear that if Lebanon were to blow up in the form of a serious Syrian-Israeli confrontation, this would jeopardise negotiations on West Bank.

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MEN AND MATTERS

Tribunites celebrate

At lunch in Blackpool yesterday a colleague joined the Welsh Tribune Neil Kinnock who was busy celebrating in a wine bar with some political allies including Jimmy Reid, the shipbuilders' leader and former communist.

"My cup runneth over," exclaimed a jubilant Kinnock about his election to Labour's National Executive Committee, accepting a further glass of champagne. In a shift to the left he and the irrepressible Dennis Skinner have replaced Ian Mikardo and Jack Ashley, a moderate.

Kinnock hopes that his new position will provide a power base for introducing what Tribunes are fond of calling "industrial democracy in the Parliamentary Labour Party."

He is optimistic about his chances, insisting that "the resentment felt against executive government is a growing factor in all parties in parliament."

His colleagues refer affectionately to his "music hall patter" but Kinnock soon proves himself as thoughtful about parliamentary reform as he is unabashed about joining "rightists" who call for the next Olympics to be moved from Moscow: "I am fed up with mere choir chants about oppression being indefensible. It is a fundamental right of people to speak their minds, even if what they say is complete nonsense."

No to Europe

Mikardo, who is 70 years old, seemed downcast at not being able to spend one more year on the NEC before retiring. And an idea that he had first put forward—that the general elections and Euro-elections should be held simultaneously—also now seems only a remote possibility. Predictions that the two elections will take place next

Short relief

Michael Foot was looking, if not cheerful, a great deal less glum after the Prime Minister's speech with its powerful phrases and curiously indefinite content. Only the day before Foot had been sounding grim warnings that the vote against the 5 per cent pay policy spelt the end of the Labour government. But yesterday he had sufficiently recovered his spirits to suggest that a better deal for the lower paid might do the trick. "I'm not saying that we can manage the £80 a week they want, but it might more in that direction," he told a colleague. But surely it was the quite-well paid unionists who presented the real challenge to the policy? "Yes," admitted Foot—and much of the glumness seemed to return.

Arab connection

A bill of over £2m for installing air-conditioning in a hotel obviously needs some thought and on Sunday the Dorchester's chairman, Lord Pritchard, and its managing director, Peter



"With our constant diet of dog-eat-dog, it's a wonder the species survives!"

Stafford, flew to Marbella in Spain for the thought or two involved. It was only a brief trip. By Monday they were back and yesterday Stafford told me that they had spent until the small hours talking out the various plans they have for the Dorchester with a representative of the Arab group which bought the hotel two years ago.

The group still protects its anonymity behind the company Pageguide, formed in 1976 to purchase the Dorchester's shares for £3m. But its representative's identity is now known. He is the Syrian-born Mouaffak Al Midani, a man close to Crown Prince Fahd, first deputy prime minister and his apparent in Saudi Arabia.

The Dorchester says that Midani has had a suite at the hotel since long before the Arabs bought it but no further details are available about the actual owners of the hotel or whether the Saudi royal family is directly involved. As for Midani himself, he too is secretive. Has a large villa in Cannes and a yacht which is

said to rival that of the Onassis family. Not for nothing did a Nice paper, referring to the way the Arabs are now active on the French Riviera, compare them recently with the nationality which had built up the Riviera. Its headline on the Arabs? "Les nouveaux Anglais."

Wild in Wales

The Welsh are faced with a new threat—sheep. Welsh Development Agency chairman Sir David Davies says they roam into towns and "are at best a nuisance and at worst a danger to health and personal safety."

The list of their crimes includes damaging cars, devouring garden produce, causing road accidents and overturning refuse bins.

The WDA is now starting a special fund to help local authorities while the Farmers' Union of Wales complains: "Welsh sheep are more adaptable and more cunning than most breeds of farm animals."

Its spokesman, Gwilym Thomas, adds that "their capability at jumping fences is prodigious and a five-hour gate is nothing to the mountain sheep. If there is greener grass on the other side of any obstacle they take some stopping."

Tourist guide

If there are more confused visitors to London than usual, I may have an explanation. Early this week I was delighted to be handed a London bus route map at the ticket office of Hammer-smith underground station. Canard has a massive hotel nearby and jostling tourists seemed as pleased as the favoured Londoners. Why this generosity? I innocently enquired. "We've got a lot left and we're clearing them out," came the reply. "They're out of date."

Observer

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Shipping: a picture of unremitting gloom

By IAN HARGREAVES Shipping Correspondent

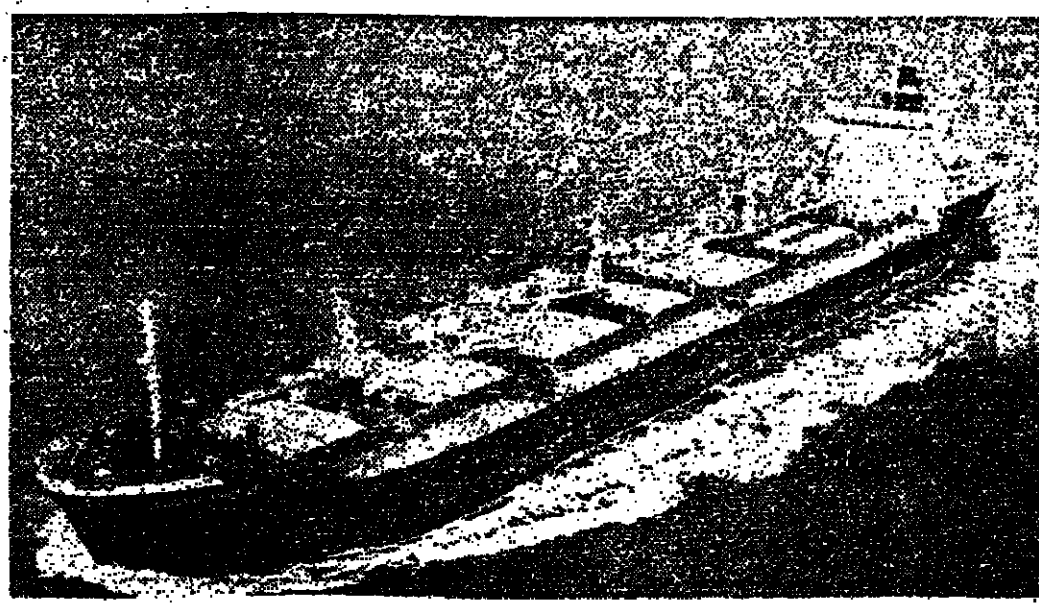
WHEN THE editor of one of Britain's numerous shipping journals announced his departure recently, he referred in a valedictory column to the sense of relief at no longer having to search for metaphors to describe the industry's depressed condition.

Four years and probably no more than half way into the shipping slump, the imagination is indeed stretched. If the industry were to select a poet laureate, the ideal candidate would perhaps be the depressive Victorian Jesuit, Gerard Manley Hopkins, whose final "terrible sonnets" would not cheer anyone, but might at least make shipowners feel understood with openings like:

"No worst there is none. Pitched past pitch of grief. More pang, will, schooled at forerangs, wilder wine."

The industry is in just that position. It broods over the graphs of likely supply and demand and still is unable to predict with certainty when any solid improvement will occur. Not before 1980, virtually everyone agrees, probably not before 1982, and many believe not until 1985. The remorseless tanker market statistics show that there will still be a 30 per cent surplus of supply in 1982 and even beyond that date, it is hard to identify a certain course towards market equilibrium. There will undoubtedly be improvement in some segments of the market—for example in smaller tanker sizes—before this date, but that does not alter the general picture.

The conversion of unwanted tanker orders into dry cargo ships at a time of world trade recession has spread a gloom over the industry. The table shows, there are still substantial additions to the fleet in the pipeline and in this respect the position is now



Cunard Champion, sold to a Bermuda-based company a few weeks ago as Cunard disposed of its entire bulk carrier fleet.

worse for dry bulk carriers and container ships than for tankers. A 10 per cent gross addition to the dry bulk fleet alone is due within the next two years at a time when even the higher levels of scrapings experienced this year are unlikely to mean a loss during the period of more than 30m dwt at best. Although 12m dwt of shipping has been sold for scrap so far this year, the continued depression of the steel industry, which is the main scrap user, is still holding down prices.

For companies wholly committed to bulk shipping and without the protection of very long term charters for their ships, the effect has been disastrous. The well-known Colocotronis, such as Reiksten and Colocotronis, have been far outnumbered by cases where effectively bankrupt companies have been given at least a temporary lease of life by their bankers or their governments.

West Europe's major liner companies have, because of their broader base and the shelter provided in at least some trades by strong conference (the mechanism used by liner shipping companies to fix rates and levels of service) registered the impact of the crisis more slowly. But with their bulk-carrier interests creating a running sore, even operators like Nedlloyd of Holland or P & O and Ocean in Britain, have been unable to withstand the normal ups and downs of liner operations, such as port congestion, without a dramatic reduction in profitability.

There are a few pockets of stability, such as certain, highly specific roll-on, roll-off ferry routes, and some refrigerated container operations where it is difficult for newcomers to break in, but these are small in scale.

In the last year, there have been a number of international

efforts to "solve" this shipping crisis, but all have failed. The industry's own tanker and dry-bulk pooling proposals designed artificially to stimulate the market by creating a false shortage of supply—have foundered as most realists expected because the differences between individual owners' financial conditions proved greater than their desire to face common problems together. Equally, hopes that international concern about sea pollution would lead to compulsory changes in tanker design involving much reduced cargo capacity have proved illusory.

The latest and boldest effort is to seek the agreement of the world's shipowners, shipbuilders, banks and oil companies for a scrap and build plan designed to get rid of at least the 30 per cent surplus of tonnage in the world fleet without starving the shipbuilding

industry to death in the process.

Individual governments in the main shipping countries have also become involved in dealing with the crisis, although the thrust of their policies often seems uncertain and there has been no effective international co-ordination of their contributions.

The oldest scheme, Norway's Guarantee Institute, continues to be buffeted in the country's political arena partly because of the uncertainty of the financial risks involved and partly because shipping is not an electorally popular subject in that or any other country. Japan has decided to finance an oil storage scheme which will take an almost insignificant 5m dwt of tankers out of service. Britain has responded with a small three-year debt moratorium plan designed to help, but on very tough terms, only the pure tramp-ship operators suffering from the worst of the crisis.

Part of the problem is that governments are not experienced in dealing with the financial side of the shipping industry, which has traditionally sought and thrived upon the minimum of government involvement in its affairs. Although the invisible earnings of shipping are of great importance to the economies of Britain, Greece, and the Scandinavian countries, it is difficult to formulate purely national solutions for an industry which is fundamentally international.

Shipowners recognise this and although they take a considerable interest in the shipping policy manoeuvres of government, suspecting as they do the will in some cases towards nationalisation, their only unanimous desire is to see governments cut rather than subsidise their shipyard capacity.

There can be little doubt that the pressures of the slump, together with wider political pressures, are leading to significant structural changes in the industry. The share of the world fleet registered in OECD countries has fallen steadily in the last few years

predominantly by the big Hong Kong-based flag-of-convenience operators and by the developing countries, notably China. Of the 41 ships reported as sold for further trading in August, for example, nine were for China, between 10 and 12 were for Hong Kong, with most

problem of their own high crew costs by developing a strong relationship with Hong Kong, where owners bought ships and chartered them back to the Japanese. This system accounts for almost half of Japanese-controlled shipping.

The Norwegians, with the highest crew costs in Europe, would like the freedom to follow the same pattern, but are prevented by their trade unions and their government. In this situation they are urgently seeking to improve the profitability of their ships by cutting crew sizes by up to 25 per cent.

Diversification is now regarded as essential by all the big British shipping companies. Shipping remains, however, a valuable adjunct, notably because of the taxation advantages it permits, within a diversified group.

Certainly, the major Western and Japanese shipping companies give the impression that they are slumping down to survive the siege rather than planning to capitulate. In recent weeks, they have even had the encouragement of profitable tanker rates in the Gulf and slightly firmer dry cargo rates in some other areas. But as John J. Jacobs, the London broker, said in his recent tanker review, a slight breeze in the Gulf should not be confused with a trade wind.

Only by finding some way of sending a huge slice of the world's fleet in a premature scrapping berth can the industry speed its way out of the slump unless an unforeseeable event, such as a war, throws the statistical projections into confusion.

Saving such unlikely developments, the industry still has a long period of siege conditions to face. To take another Manley Hopkins first line: "Patience, hard thing!"

WORLD FLEET: DELIVERY PROGRAMME

	Existing fleet	To be delivered	% addition to fleet
Tankers	325	20.2	6.2
Bulkcarriers	132.6	13.4	10.1
Combined carriers	48.4	2.7	5.5
Liquid petroleum gas carriers	4.6	1.9	41
Liquid natural gas carriers	3.5	3.7	105.7
Container ships (twenty-foot equivalent units)	585,914	237,564	40.5
General Cargo (m grt)*	80	8.8	11

* FT estimate.

Sources: Lloyd's Register and H. P. Drewry

from over 60 per cent in 1974 to just over 54 per cent, with flag-of-convenience registrations (28 per cent) and developing countries (11 per cent) making gains.

Even without the slump, Western shipowners accept that the developing world's ambitions in shipping would have been gradually met, either through the normal bargaining processes or through the strictures of the United Nations liner shipping code and its 40:40:20 share-out between exporting country, importing country and cross traders.

But the severity of the recession has involved the destruction of the equity base of some shipping companies and the serious erosion of financial muscle in others. The ships these companies are being forced to sell are being bought

of the rest going to other Far East interests and Greece. C.Y. Tung, the second largest of the Hong Kong companies, has recently bought 20 ships totaling 2m dwt.

The problem for Western owners is whether they can compete with this powerful combination of state-controlled developing country fleets—such as the pan-Arab United Arab Shipping Company—whose expansion is as much a matter of political as of commercial logic, and the Hong Kong owners who combine the advantages of cheap crews and relative freedom from trade union problems with formidable financial and operating expertise. When the recession ends, the ships bought by these owners at slump prices will make them more competitive. The Japanese solved the

Letters to the Editor

Accounting policies

From Mr. D. Goch.

Sir,—It seems a great pity that so much of the comment on the accounting standards programme by Michael Lafferty (September 25) is concerned with the Accounting Standards Committee when what is needed is an objective cost/benefit analysis of the real value of what has been done so far.

Some of the standards already promulgated hardly seem to justify the considerable number of man-hours that must have gone into their preparation (for example those dealing with the treatment of VAT, government grants, earnings per share and source and application of funds statements). The associated companies standard (SSAP 1) can be positively misleading in certain circumstances while others (those dealing with stocks and work in progress and development expenditure) have sought to apply a common accounting treatment right across the board without regard for the fact that accounting presentation often needs to be tailored to the circumstances of the individual industry or business.

Attempts to apply rigid rules in circumstances where they are clearly inappropriate have been rightly opposed by accountants and others in the industry concerned, and despite Michael Lafferty's obvious disapproval of the ASC backing down in this kind of situation I hope that the critics' voices will long continue to be heard.

He suggests in his article that too little attention is paid to the needs and views of the end-users of published accounts, but he wisely avoids attempting to identify this amorphous group. On a simple head-counting basis individual shareholders are probably the largest sector—and who knows what their requirements are or how they select their representatives? The most vocal group are probably the investment analysts who represent institutional and similar interests—and they are the other who are equipped to sort out for themselves what is not quite to their liking in the presentation of the accounts. In any event, they are often privy to information that is not readily available to the individual shareholders.

The most sensible standard of disclosure is SSAP 2—disclosure of information in the annual report, all but the most fastidious investment analyst ought to be able to make an assessment to suit his purpose.

Rather than make a case for a larger ASC bureaucracy, we ought to be examining the possibility of a programme of phased redundancy in this area. Desmond Goch.

4, Paddock Wood, Harpenden, Herts.

Setting up standards

From the Deputy Chairman, Brixton Estate

Sir,—In his article on accounting standards (September 25) Michael Lafferty fails to differentiate between setting up of an accounting standard and its subsequent enforcement.

The efforts of the British Property Federation to have the standard amended in respect of property investment companies, to which he refers, only arose because the standard, as drafted, while probably suitable for the average trading company, was totally inappropriate to property investment companies. A "true and fair view" as to be disclosed. If sections of commerce and

industry with particular accounting problems are given the opportunity of working closely with the Accounting Standards Committee at the drafting stage, a sensible basis for the preparation of their accounts can be established. This, I believe, is what Mr. Tom Watts is proposing.

If, after this detailed consultation in practice very time-consuming business, the standard has the approval of the Accounting Standards Committee and the relevant interested parties, its enforcement will command general support. In other words, the essential 45 to get the "legislation" right before attempting to enforce it. Harry Axton.

22-24, Ely Place, EC1.

Insider dealing

From Mr. B. Cole

After a generation of discussion about possible legislation on insider dealings, one important aspect, I believe, being neglected. The basic principle of such legislation is that it is unfair (and will be criminal) for one to make a profit share in the knowledge not available to the general public, that is, actual and prospective investors.

At the same time, there are movements to encourage worker shareholders, and to improve the communication between management and worker forces. If I am a worker shareholder in a well-managed company, where my managers keep me informed about the company's performance and prospects, am I not always an insider?

What is the solution? Should my manager keep me in the dark about the company's prospects, should I never buy or sell shares in my company, or should I be arbitrarily defined as a non-insider (provided, of course, that I am not a director)?

My own preference is for management communication, against worker shareholdings and against the worst excesses of insider dealing. I am sure that other views are reasonably possible, but it is surely not reasonable to treat these three subjects as if they did not overlap.

B. A. Cole.

"Drake Wood,"

Devonshire Avenue

Amersham, Buckinghamshire.

Monetary system

From Mr. J. Carr

Sir,—I agree with the view expressed in the Lombard column on September 20 that there has been a remarkable lack of informed public discussion of the Franco-German proposals. It is not even clear to me whether intra-EEC exchange rates, once fixed, are supposed to remain the same for ever, or whether parity changes will be provided for. It seems to me that, unless small changes in parities are allowed at fairly frequent intervals, pressure will inevitably build up for larger changes when disequilibrium has become apparent. Expectations of such adjustments from time to time would cause outbreaks of speculation against the weaker currencies that might be just as damaging as the present uncertainties.

On the other hand, a system that permitted limited adjustments at frequent intervals—say, one cent a month or 1 per cent a quarter—could easily be accommodated by private operators in the forward market without any need for central bank intervention. If the monetary authorities allowed interest rates to move freely within

the limits implied by the permitted parity changes. All that is needed is to keep differences in national inflation rates below the maximum tolerable difference between interest rates in European financial centres. This could be done without undue disadvantage to borrowers in high interest countries, if capital movements within the EEC were freed, as the British company (or home buyer) faced with high rates of interest on sterling loans could raise a loan in Deutsche marks or Guilders at a lower rate of interest. No doubt somebody would insure him against the exchange risk if he wanted to minimise uncertainty. Or he might take a loan denominated in European units of account, at an intermediate interest rate that should be reasonably stable and the same in all EEC countries for borrowers of equal standing.

After a generation of exchange control we seem to have forgotten how efficiently free markets can work, provided governments intervene when necessary to maintain orderly conditions. This can best be done by avoiding the need for sudden large adjustments which cause windfall gains and losses on holders of the right/wrong currencies at critical times. It is rather sad to reflect that an earlier British Government published a White Paper in the middle of a world war to promote discussion and understanding of the negotiations at Bretton Woods from which the IMF emerged.

J. L. Carr.

55, Bourneham Drive,

Herne Bay, Kent.

Middle East settlement

From Mr. A. Kaye

Sir,—In your leader of September 25 you state that Mr. Begin's next task should be to tell his country that in the end, all the settlements in all the occupied Arab lands, should be dismantled.

It is both possible and feasible that at some future date Mr. Begin—or more likely his successor—would have to do just that. But I seriously question the expediency of doing this now. Had Israel been a colonial power which could withdraw away from the scene, such a move would be justifiable on both moral and practical grounds. But this is clearly not the case with Israel and the West Bank. Here you have not only close geographic proximity but also deep-rooted animosity. Surely the best way to ensure permanent stability in the area would be to encourage a Palestinian leadership in the West Bank, with strong local interests, which would be inclined to try to achieve the most out of peaceful relationship with Israel. Such a leadership could only evolve during a transitional period of supervised autonomy in the West Bank.

If Israel were to declare now a total withdrawal and the dismantling of all her settlements in the West Bank, the PLO would inevitably move in to fill the vacuum created. Such a situation would be perilous, intolerable in the Middle East, and all the more predictable in view of the PLO's record.

Adam Kaye.

34, Elm Tree Road, NW8.

Generating power

From Mr. G. Hochley

Sir,—Professor Grant (September 25) asks us to compare a one-in-a-million chance of a serious nuclear accident or of a statistical certainty that about

50 miners will be killed next year producing coal.

To avoid his own charge of "rabble raising polemics" Professor Grant should compare like with like. In this case the chance of accidents in generating electric power by coal or by nuclear power. As a Professor of Nuclear Power he must be aware that the mining of uranium is a dangerous occupation exposing the miners to radon gas as well as presenting many more hazards in the processing and in disposal of the radioactive tailings.

G. C. Hochley
(Senior Lecturer in Economics),
University College,
PO Box 96, Cardiff.

Ecological concern

From Lord Beaumont of Whitley

Sir,—If Professor Grant (September 25) accuses Mr. Morgan-Greenville of attributing nuclear establishments' beliefs and motives which are not supported by the evidence, he should not use the same tactics himself. Professor Grant says that "it has been suggested that the nuclear industry is under attack as a conspicuous first target to a general attack on technology as a whole." He then, with no further evidence, assumes that this suggestion is true and that it involves the Green Alliance. It is not true of the overwhelming majority of those who are ecologically concerned and it is in no way true of the Green Alliance.

We wish to see technology used to the full for the good of mankind. But it must be appropriate technology. Inappropriate technology includes that which pollutes, that which is dangerous, that which is wasteful, that which is organised in units so big and important that they can easily be controlled by small numbers of people and therefore are either at risk from saboteurs or have to be guarded in ways which threaten civil liberties.

The nuclear power industry clearly falls in to the last category and probably into the first two as well. That is what we are making a fuss about and that is why we want our electricity to have to be generated in ways which we value as much as does Professor Grant, to be provided from clean, renewable and devolved sources. It may not be possible yet, but that is the way we must move.

Beaumont
The Green Alliance,
1, Hampstead Square, NW3.

Facts on funds

From Mr. R. Lancaster

Sir,—I must confess to some amusement on reading Mr. Smith's letter (October 2) which, in part, seems flatly to contradict mine in an adjacent column. I am not sure whether he is entirely serious but, if so, several of his points may be quite forcibly answered.

It is accepted that the National Association of Pension Funds publishes an annual survey of members' practices, but I think it arrogant to pretend that this makes all other questions asked not the analyses of answers by sub-groups necessarily accord with all needs. Also, some people want information now and not "early next year."

Mr. Smith claims that pension fund managers are always happy to give information to those entitled to receive it. He omits to add that many—between one-quarter and one-half, if my recent experience is typical—take a fairly liberal view of

who is so entitled... and Mr. Smith will have to accept that I am not a publisher of commercial directories!

This sizable minority is exemplified by one well-known Scottish company, which replied that "... it has been found necessary to restrict the completion of questionnaires to those received from the NAF. Government sources or with the backing of either of the aforementioned."

I would suggest that Mr. Smith overstates also the amount of information given to members of funds. One does not need to be an expert to realise the woeful ignorance of most of the working population over pensions. Members' apathy is certainly one factor—pensions are commonly regarded as a big turn-off. In part, the apathy is psychological in that people do not like being reminded, however subliminally, of the inevitable aging process, but apathy is also induced through unclear establishments' beliefs and motives which are not supported by the evidence, he should not use the same tactics himself.

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Beaumont
The Green Alliance,
1, Hampstead Square, NW3.

The future job market

From the Secretary and Chief Executive, The Institute of Chartered Secretaries and Administrators.

Sir,—The Institute of Chartered Secretaries and Administrators is most appreciative of Michael Dixon's warning (September 21) about the future job market for accountancy-trained graduates or those otherwise qualified professionally in narrowly based financial subjects. We agree with Mr. Dixon's forecast and welcome the publicity he has given to it.

It has long been our contention that graduates and highly qualified young people whom it is essential we should attract into commerce and industry should keep their options for management development open for as long as possible and should not tie themselves to narrow technologies.

If doctors start as general practitioners and then narrow their focus to become specialists, why is it that in commerce and industry we try to do it the other way round? If we start with narrow techniques on entry, we can scarcely be surprised if, at a later stage, it is hard to find competent generalists! My institute favours the approach of the medical profession.

B. Barker
16, Park Crescent, W2.

Today's Events

Labour Party conference continues, Blackpool.
President Giscard d'Estaing starts four-day official visit to Brazil—will include trade talks.
Janata Parliamentary Party starts three-day meeting in New Delhi—possible cabinet changes.
Mr. Zbigniew Brzezinski, President Carter's special security adviser, in London for talks with UK Government.
IMF monthly gold auction in Washington.
Crown Agents Tribunal resumes, Government Press Centre, Little St. James's Street, SW1.
Sir Leslie Murphy, National Enterprise board chairman, statement of half-yearly results (January to June).
Mr. Edward D. Cann statement on Report of Committee of Public Accounts, House of Commons.
Mr. C. J. Chetwood, chairman, George Wimpey and Co., speaks on "The necessity for a free construction industry within the British economy" at Westminster Chamber of Commerce lunch, Inter-Continental Hotel.
EEC delegation in Hong Kong for trade talks.
Management of New York Times and Daily News meet for talks to end 55-day strike.
Miss Monica Dickens at Foyles lunch, Dorchester.
Sir Peter Vaneek, Lord Mayor of London, at Institute of Chartered Accountants lunch, Mourgate.

COMPANY RESULTS

Final dividends: Bapsals, Cape Alluvium International, Interim dividends: Boufford Group, Flin Pakkaging, Higgs and Hill, Hilton Footwear, Holt Lloyd International, Rockware Group, Sanderson Kayser, Interim figures only: London and Scottish Marine Oil Company, News International.
COMPANY MEETINGS
Acrow, S. Southwark, W. 10.
K. G. Boardman International, 7, Charlotte Street, Manchester, 12.
Haslemere Estates, 4, Carlos Place, Mayfair, W. 12.
SPORT
Golf: Dunlop Master, St. Pierre, Trophy.
Tennis: Pernod Trophy, Show Jumping: Horse of the Year Show, Wembley.

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Averys ahead £0.3m. to £6.7m at six months

FOR THE first half of 1978, taxable profits of Averys, maker of weighing, testing and measuring machines, advanced from £2.5m to £3.2m, on higher turnover of £54.65m against £47.53m, largely the result of inflation at home and overseas.

The result includes investment income of £140,000 (£125,000) and share of associates' profits amounting to £20,000 against £14,000.

Mr. R. C. Hale, the chairman, says that the percentage increase of trading profit compared with that of turnover, reflects the pressure of inflation on margins—earnings rose by an average of 10.5 per cent against a 12.7 per cent rise in turnover.

Orders are remaining at a satisfactory level and the directors anticipate better results for the second half, while the funding costs, non-trading factors have taken their toll. The industrial action at Smithwick, which affected production in the weighing and testing machine division over a six-week period, probably cost around £500,000 while adverse currency movements took away another £100,000. However, without any further industrial action, the position in the second half looks much more hopeful. Home demand for weighing machines has responded to the upturn in consumer spending while overseas sales and exports remain strong, especially in the Middle East and parts of Africa.

The new digital electric scale continues to sell well in all markets. The shares yield a prospective 5 per cent at 191p.

Dividend rise forecast at Tor Inv.

A FURTHER increase in dividend is expected at Tor Investment Trust, the chairman says in his annual statement.

The increase will come despite the limitation imposed by the need for profit reserves to ensure sufficient incomes to maintain payments after the 1980

Good start for Kursaal

Mr. Eric MacArdie, chairman of Kursaal Company, told shareholders at the AGM that a good start had been made to the current year and that profits for the first four months were ahead of the corresponding period of the corresponding period.

The company owns the Dragonara Palace hotel, and casino in Malta. The group said that the period for negotiations had been extended as the original timetable did not allow sufficient time to agree final terms. Spillers said that the discussions with the banks were "continuing in a very relaxed manner".

Under the terms of the facility, Spillers has agreed to consult with its bankers on future dividend payment and capital expenditure. However, Spillers has said that the terms of the deal does not restrict management of the group.

TUNNEL HOLDINGS DEBENTURE STOCK

The directors of Tunnel Holdings have decided to propose to stockholders the early redemption of the 5 per cent debenture stock 1983/85 currently outstanding at a price of £95 per £100 nominal of the stock, plus its bankers on future dividend payment and capital expenditure. Formal documents, including the notice of meeting, the terms of the deal does not restrict management of the group.

CLIVE INVESTMENTS LIMITED

1 Royal Exchange Ave., London EC3V 3LU. Tel: 01-253 1101
Index Guide as at September 26, 1978 (Base 100 = 14.177)
Clive Fixed Interest Capital 129.70
Clive Fixed Interest Income 114.31

ALLEN HARVEY & ROSS INVESTMENT MANAGEMENT LTD.

45 Cornhill, London EC3V 3TE. Tel: 01-323 6314
Index Guide as at September 26, 1978
Capital Fixed Interest Portfolio 100.00
Income Fixed Interest Portfolio 100.00

BUILDING SOCIETY INTEREST RATES

GREENWICH	LONDON GOLDHAWK
(at 6.25%)	(at 6.25%)
20% Deposit Rate 6.45% Share Accounts 6.85% 3 yrs. 7.00% 5 yrs. 7.50% 2 yrs. 1% above share rate. Interest payable quarterly on share/term shares. Flexible Income share 6.85%	20% Deposit Rate 6.45% Share Accounts 6.85% 3 yrs. 7.00% 5 yrs. 7.50% 2 yrs. 1% above share rate. Interest payable quarterly on share/term shares. Flexible Income share 6.85%

BUNZL PULP & PAPER LTD

Interim Report 1978

Unaudited results for the half year ended 30th June 1978 and comparative figures for 1977 are

	Six months to 30th June	Year
	1978	1977
Sales	104,144	109,133
Trading profit	5,262	7,206
Share of associates' profit	1,997	1,788
Net interest and dividends	548	976
Group profit before taxation	6,701	8,016
Taxation	3,503	3,891
Group profit after taxation	3,198	4,125
Minority interests	489	607
Earnings for shareholders	2,709	3,518
Extraordinary items		
Currency gains/losses	742	279
Other	297	459
Earnings after extraordinary items	3,164	3,698
Earnings per share		
Before extraordinary items	10.3p	13.4p
After extraordinary items	12.0p	14.1p
Dividends per share		
Net to shareholders	3.191p	2.860p
Gross equivalent	4.763p	4.333p

Sales and profits for the first half of 1978 were lower compared with the corresponding period in 1977. The main areas contributing to this decline were Bunzl & Biech A.G., paper trading in the UK and overseas, and UK filter manufacturing.

After allowing for improved contributions from associated companies and reduced net interest paid, the Group pre-tax profit was lower at £6.7 million.

However these results reflect a significant recovery from the very depressed conditions prevailing during the second half of 1977.

The Directors have decided to pay an interim dividend for 1978 of 3.162p a share together with the promised extra 0.029p a share out of 1977 arising from the reduction of the basic rate of tax to 33%. This total interim dividend of 3.191p a share will be paid on 29th November 1978 to shareholders registered at the close of business on 27th October 1978.

Last year we made a forecast at this stage which proved to be too optimistic because of unexpected currency movements and a sudden downturn in some important parts of our activities. In the absence of similar unpredictable factors we would expect group profit before taxation for the whole of 1978 to be in line with that for the previous year.

Saga meets forecast

PROFITS before tax of Saga Holidays, at £1.91m for the year ended June 30, 1978, are in line with the March prospectus forecast of not less than £1.85m and compare with £1.32m in the previous year.

Earnings per 20p share are shown at 18.65p (12.15p) and the dividend is the forecast 4.5p per 20p share. In the offer sale the directors expected to pay dividend in a full year totalling 6.75p with the interim in April and the final in November.

Having regard to the anticipated growth in overall volume, the Board considers that current year profits will be satisfactory.

The range of holidays offered was again expanded and 191,000 people took the group's holidays during the year. By judicious purchasing of foreign currency the group was able to give rebates to certain overseas holidaymakers before making their holidays, totalling £164,000.

Bowring in reinsurance company deal

C. T. Bowring, international insurance broker, is forming a reinsurance company in Singapore. KCS Reinsurance, together with consortium of other international insurance groups.

The new company will start operations with an authorised capital of \$850m (£11.5m), and will have an issue and paid-up capital of \$512m (£2.7m). Shareholders of the new group include the Insurance Corporation of Singapore, which holds a 30 per cent stake; others include the Bowring Group of London, the Pohjola Group of Helsinki and the National Insurance Company of New Zealand.

The underwriting and business development of KCS is to be run by the Reinsurance Management Corporation of Asia.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are available and the sub-divisions shown below are based mainly on last year's practice.

TODAY
Interim: Beaufort Group, F.C. Finance, Friday Packaging, Buses and Hill, Filinvest, Fortwear, Holt Lloyd International, Rockwood, Sanderson Kayser, Triplet, Finance Capital, Core Alumin International.

FUTURE DATES
Interim: Altabe, Oct. 26; Broom Engineering, Oct. 12; Bulmer and Lamb, Oct. 22; English National Investment, Oct. 24; Farnell Electronics, Oct. 10; Girdle of London, Oct. 9; Hovenden-Stuart Plant, Oct. 8; Inter-City Investment, Oct. 10; King and Shannan, Nov. 10; Marsden, Oct. 12; Marchand, Oct. 9; Selmeur, Oct. 22; Western Brothers, Oct. 17.

Net liquid funds increased by 288,400 (£206,000 decrease) and net assets are shown at 62.4p (48.9p) per 10p share.
The group's associate, J.B.G. (Property), is now clear of constraints to develop some 750 houses at Wilmslow and over the next seven or eight years the directors expect a continuing and increased profit from this source, states the chairman.

Overseas, the position in Montreal is unchanged, but the steel bar conversion factory in Bahrain suffered a small loss mainly owing to operational difficulties. However, the Lyceum and Platt subsidiary completed 10.5m of building work for the Bahrain Monetary Agency and several major Middle East banks at satisfactory profit margins.

During the year Knibbs, the group's motor car distribution subsidiary, opened four new branches in the north west, which boosted turnover, but gross margins from the new units were absorbed in expenses. The directors expect a good profit contribution in the coming year. Mr. Burns explains that a significant feature of the year's expansion was the opening of its first Volkswagen/Audi dealership. This will be followed by the opening of another towards the end of the coming year and these new units will give the company added marketing strength.

The store and bank fitting companies both showed a considerable increase in profit, as a result of more work becoming available and also the volume of work undertaken in the Middle East.

K.B. Reinforcements again increased profit despite the low level of activity in the construction industry and both its subsidiaries had a very successful year. K.B. (Western) now appears set to make an expanding contribution to group profit, the chairman adds.

In April, the company disposed of its electrical wholesaling subsidiary, Melvin Electric, which had not shown the progress expected of it.

In late August, the company purchased Olney Brothers and its associate shop and store fitters, for £110,000—pre-tax profit of £21,000. The purchase was completed on February 28, 1978, was £32,118. Meeting, Manchester, October 26, noon.

Estates and General Invs. ahead so far
Although turnover at Estates and General Investments declined from £284,000 to £263,000, pre-tax profit rose £17,000 to £107,000 on the first half of 1978.

The results exclude any contribution from County and Suburban Holdings which was acquired with effect from July 1, but results against £1.44m.

The directors are confident that the group has now established itself at the higher level of activity and expect that the current year will again yield further progress.

Tax takes £140,000 (£120,000) giving earnings per 10p share of 6.1p against 5.2p. A final dividend of 0.816p makes a maximum permitted total of 1.116p compared with 1p previously.

Profit is struck after interest of £71,000 (£88,000). There are extraordinary debits of £35,000 (£55,000) and £202,000 against £37,000 is retained.

Burns-Anderson sees profit advance

A FURTHER advance in profit is confidently expected by the directors of Burns-Anderson for the coming year, according to Mr. W. Burns, the chairman, in his annual statement with the accounts.

The confidence arises from their expectation that Knibbs' new retail outlets will move into profit, the additional manufacturing capacity at Lyceum and Platt, and the anticipated increase in the contribution from joint companies.

As reported on September 21, pre-tax profits jumped from £433,433 to a record £820,320 for the June 30, 1978 year. The dividend is lifted from 1.45p to 1.619p net and a one-for-one scrip issue is also proposed.

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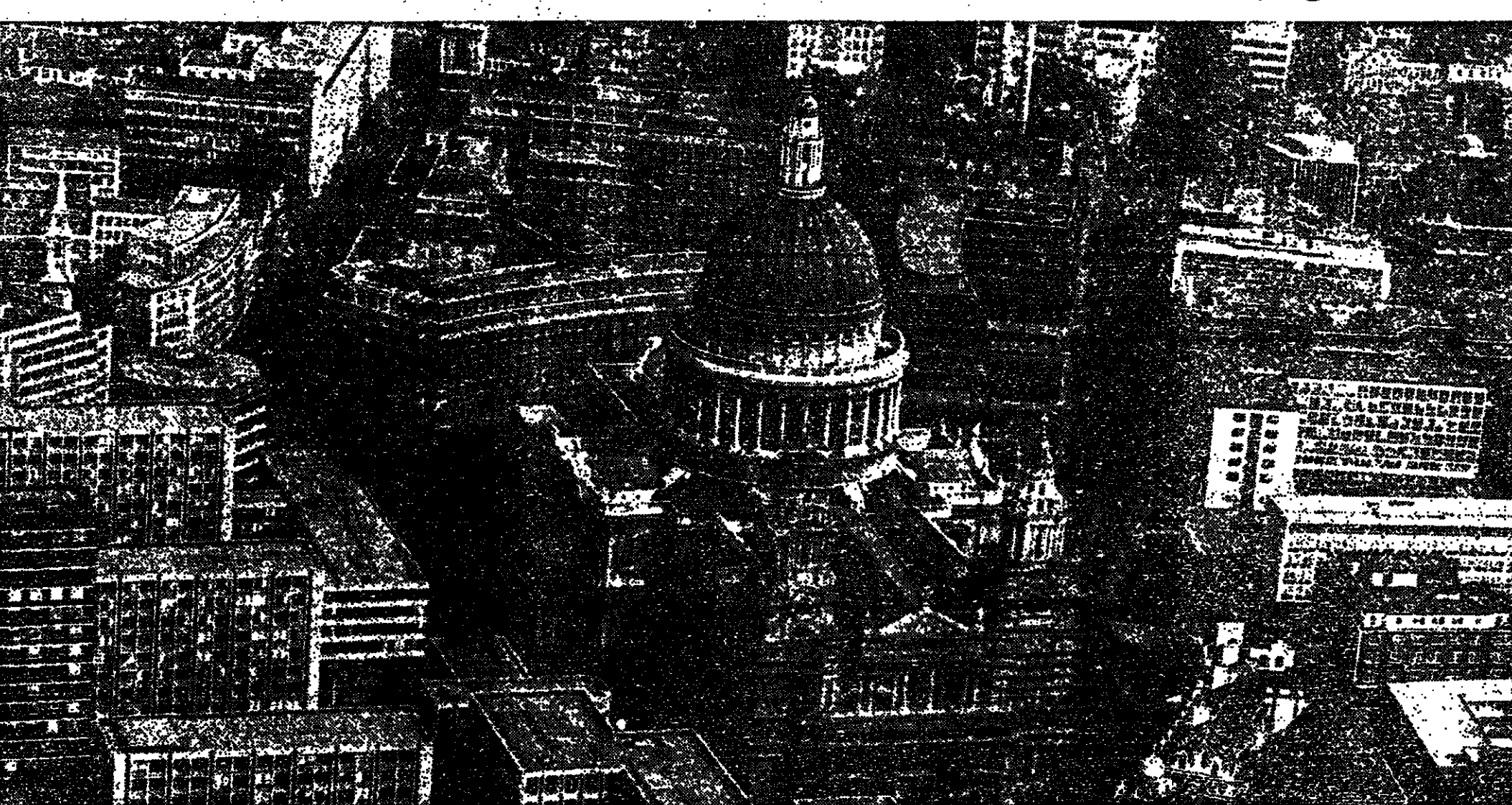
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countries. We have capital and reserves of more than US \$3.5 billion and total assets of US \$46.7 billion.

Our London manager Mr. José Fernandes de Luna will be glad to put all his extensive knowledge at your disposal. He will show your business success in Brazil can begin in King Street, London.

If you think you could be a partner in this great enterprise you will want to know how you will benefit and how to set about it. You can find out both by talking to José Fernandes de Luna at the Bank of Brazil.



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*Closes to be opened in 1978.

BIDS AND DEALS

Hoskins rejects Talbex: 'no commercial logic'

BY TIM DICKSON

Hoskins and Horton, the Birmingham-based contractor, has rejected a takeover approach from the Talbex Group.

In a letter sent to shareholders yesterday, Hoskins chairman Mr. S. Lloyd says the activities of Talbex "are wholly different from those of your company and he sees no commercial advantages in a merger."

Last night Talbex director Mr. Peter de Savary, speaking from Nassau in the Bahamas, said he did not accept or agree with the Hoskins statement.

While a spokesman for Talbex in London said a formal offer would be made to Hoskins shareholders in due course, he indicated that an announcement would probably be made in the next couple of days.

Talbex recently bought 20.2 per cent of Hoskins from the Bahamas-based Arco Bank of which Mr. de Savary is also a director. Arco also holds 22 per cent of Talbex.

Yesterday's letter from Hoskins follows last month's announcement that Talbex had approached Hoskins with a view to making a bid.

Referring to the subsequent discussions Mr. Lloyd says Talbex saw advantages in the two groups working together in the export field.

Rejecting the possibility of a merger, Mr. Lloyd says Hoskins is already operating most efficiently on the export side of its business and, in addition, the joint venture in Kuwait with local partners is poised to begin production within the next three months.

The Hoskins Board has declined unanimously that there would be no further value in discussions with Talbex since a merger would not be in the interests of employees or shareholders.

The letter also points out that Hoskins' interim profits for the half year to June 30, 1978 increased by 36 per cent after interest and excluding exceptional items.

Mr. Lloyd comments: "This reflects an improving trend of trading profits over the last 18 months." He adds that the Board anticipates a very satisfactory outcome for the year as a whole.

WAGON MOVES INTO LEISURE

Wagon Industries Holdings has completed the purchase of the capital of Cotswold Coach Craft, manufacturer of Windrush Caravans.

Wagon aims to use the new company as the foundation for the building of a leisure division.

As previously announced, total consideration was £300,000 satisfied by £273,000 in cash and the issue of 100,000 ordinary shares. These shares will not be entitled to any final dividend in respect of the

year ended March 31, 1978, nor to any interim which may be declared in respect of the half year to September 30, 1978.

Application has been made to the Council of the Stock Exchange for the new ordinary shares to be admitted to the official list.

Cotswold Coach Craft manufactures a range of high quality touring caravans under the trade name "Windrush" at leasehold premises at South Humberston Industrial Estate, Grimsby, and at June 30, 1978, had net assets of approximately £145,000.

It is anticipated that trading profits before tax of Cotswold for 1978 will be not less than £100,000.

The Bowater Corporation has bought two forwarding, warehousing and Rhine shipping companies from a subsidiary of the Swedish Brostrom Group in a deal worth about £5m.

The two companies, Konigsfeld of Rotterdam and Roba of Basle, are both part of the group of companies owned by Brostrom. The two groups have net assets of £5m and Mr. D. J. H. Slater, a Bowater director, said yesterday that the value of the purchase was roughly in line with net assets.

He added that the acquisition "marked a modest step forward in the way we want to go in the development of Bowater's

Group Investors - Equitable Life Assurance Society has bought further 60,000 shares making total holding 52 per cent.

Louis Newmark - M. C. Martin and D. D. Rothschild, directors, each sold 3,000 shares on September 28 and H. H. Newmark, director, sold 3,000 shares on September 29. A total of 9,000 shares were sold on behalf of G. L. Newmark out of his discretionary fund.

Johnson Matthey - Following companies hold an interest in excess of 5 per cent: Johannesburg Consolidated Investment 3,880,700 Ordinary shares (22.9 per cent), Prudential Assurance 855,227 (5.03 per cent).

Birmingham Mint - Company notified that National Transport Tokens has sold 200,000 shares in the company, thereby reducing holding to 100,223 shares (5.06 per cent). Mr. D. C. Holley, nominee director of National Transport Tokens, has resigned from the Board of Birmingham Mint.

Technology Investment Trust - W. R. Merton, director, sold 22,863 shares.

Whitbread - A trust in which S. C. Whitbread, director, has an interest has sold 100,000 "A" ordinary shares.

Alfred - C. and A. Pension Trust at September 27 had a holding of 200,000 income shares (8.33 per cent). Derby Trust had a holding of 150,000 (6.23 per cent).

Eurotherm International - J. D. Williams, director, sold 8,000 shares on September 22.

Sabah Timber moving into Ireland

Timber distributor Sabah Timber is planning to make its first acquisition in Ireland. The company which it has reached agreement to purchase is the Moran Group, a timber importer and building materials distributor with branches in Dublin, Cork, Limerick and Sligo.

Terms of the deal have not yet been decided as they will depend on a complete audit of the group for its year ended September 30, 1978. Any purchase price will be determined by the outcome of that audit, and no announcement is expected for another two months.

Moran's last reported pre-tax profits, for the year ended September 30, 1977, were £37,000. This figure excluded a building subsidiary, comprising of J. J. O'Brien and Premier Buildings. This will not form part of the sale and will remain with the Moran family.

Sabah said yesterday that the purchase will continue its policy of expansion and diversification.

The directors of EC (other than those representing Thomson) and their advisers, Hambros Bank, consider the terms fair and reasonable. These directors intend to recommend unanimously that shareholders should vote in favour of the scheme and have undertaken irrevocably to do so in respect of the 158,313 ordinary shares of a further 670,862 ordinary shares have also undertaken irrevocably to vote in favour of the scheme in respect of their holdings.

Together these represent 63.8 per cent of the issued ordinary not already held by Thomson.

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Carrington Viyella withdraws £10m offer

Carrington Viyella, one of the main contenders in the takeover battle for Compton Sons and Webb, has withdrawn its bid which valued the company at around £10m.

This currently leaves just one offer on the table—the cash and shares bid from Courtaulds which valued the uniform manufacturer at around £12m.

However, Courtaulds may not have fielded its offer for very long. On Monday, Compton announced that it had received another approach and with Carrington now ruled out of the race the stage is set for yet another bidder to emerge.

One possibility is that Vantona may now come forward with a firm offer. It was a takeover approach from Vantona—subsequently rejected by Compton directors—that sparked off the current battle for Compton.

Vantona directors, who were in London last night for a meeting, were unavailable to comment on whether they now intend to make an offer for Compton.

Thomson offers 40p for rest of EC shares

Terms have been agreed for the acquisition by the Thomson Organisation of all the remaining shares of EC (Holdings) not already owned.

The terms are 40p cash for each ordinary share. Thomson already owns 50.8 per cent of the issued ordinary and the capital not owned by Thomson is 1,250,359 ordinary. The consideration for these will amount to £503,744.

The scheme will be subject to the approval of the requisite majorities at a meeting of the holders of the shares to be acquired, and at an extraordinary general meeting of EC, and to the sanction of the High Court of Justice.

The directors of EC (other than those representing Thomson) and their advisers, Hambros Bank, consider the terms fair and reasonable. These directors intend to recommend unanimously that shareholders should vote in favour of the scheme and have undertaken irrevocably to do so in respect of the 158,313 ordinary shares of a further 670,862 ordinary shares have also undertaken irrevocably to vote in favour of the scheme in respect of their holdings.

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WM. BOULTON ACQUISITIONS

William Boulton Group has acquired all the share capital of Service (Engineers), manufacturer of automatic and semi-automatic machines for the ceramic industry, for £790,000 cash.

The net asset value of Service as at December 31, 1977, was £390,002 before deducting provision for deferred tax, and the pre-tax profit for the period was £230,246.

This acquisition will enable the group to provide a complete service in the supply of process of the ceramic industry.

Service is a major supplier to Marks and Spencer, is valued at £2.5m. Any deal, however, will have to have the backing of the Sumray and Shaw families which between them control 55 per cent of the ordinary shares. The Throgmorton Trust holds a 9 per cent stake in the group.

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equipment for the ceramic manufacturing industry.

The company has also acquired the capital of Gramercy Plant and Equipment for £200,000 in cash. This company is engaged in the production of control equipment for the automatic handling of railway wagons.

J. McNAUGHTON

The privately owned James McNaughton Group is strengthening its paper merchandising business in the Midlands with the acquisition of the merchandising subsidiary of Britannia, the Staffordshire-based paper and plastics concern.

Britannia's paper merchandising activities are concentrated in the Midlands where McNaughton says its own activities are weakest. The company claims the deal is expected to boost annual sales by around £1m to around £1.5m. It has declined to disclose the cost of the deal.

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Britannia's paper merchandising activities are concentrated

INTERNATIONAL FINANCIAL AND COMPANY NEWS

IVECO warns of earnings decline

By Kenneth Gooding

PARIS, Oct. 3. IVECO, the pan-European group which takes in the commercial vehicle interests of Fiat in Italy, Magirus-Deutz of Germany and Unic in France, made a profit after tax of \$80m in 1977, compared with \$35m previously. But Dr. Bruno Becaria, vice chairman and managing director, warned here today that the group would do well to break even in 1978 after allowing for depreciation.

In the first six months of this year production had fallen 8 per cent and there was an 11 per cent drop in vehicles invoiced.

In Italy, for example, total new truck registrations fell 35 per cent in the first six months of 1978 compared with the same period last year.

The flow of orders in the first half was not unsatisfactory, however, and showed an increase of 11.5 per cent compared with 1977.

Last year IVECO's sales totalled \$2,990m (\$2.7bn) and are forecast to reach \$3,250m this year. Some 108,000 vehicles were produced (103,000) and this year the total will drop to 106,000 if current forecasts prove correct.

Capital investment reached \$235m (\$155m) and this would fall to \$212m this year but over the next six or seven years IVECO will finance a further \$1bn of capital investment from its own resources.

Dr. Becaria said the most significant venture so far in 1978 was the setting up of a distribution network in North America. IVECO had hoped to link with Mack trucks in the U.S. to use its dealer network but the negotiations broke down. (Mack now seems likely to do a deal with Renault of France).

Dr. Becaria revealed that IVECO had not given up the idea of a link with a U.S. manufacturer and that tentative talks were going on with an unnamed company.

IVECO WAS still open and ready to consider favourably further forms of co-operation, Dr. Becaria said. He added that the company, which is known to be talking with Leyland Vehicles, the BL truck and bus subsidiary, has systematic contacts with all European manufacturers.

His comments come only shortly after Mr. Desmond Pitcher, the former managing director of Leyland Vehicles, who is now consultant to the division, said that the British company only had a future if it merged or co-operated with another major truck supplier.

BOUSSAC TEXTILES

The Willot Brothers move in

BY DAVID WHITE IN PARIS

THE FINAL SEAL was put on the close of Marcel Boussac's reign over the troubled textile empire bearing his name, when the four aggressive Willot brothers from the north moved in this week to take over the daily management of its small factories in the Vosges region of eastern France.

For a year before taking over completely, the Agache-Willot group will run the Boussac factories on behalf of the Paris commercial tribunal, which decided in August in favour of the Willots' FFR 700m (\$180m) bid for the bankrupt concern. The year is for the brothers to carry out their agreed restructuring of Boussac and pay back the first instalment of Boussac debts to the government and the banks.

The creditors have no worry in this score, as the Agache-Willot group's reinforced position as the leading French textile concern as well as a big retailer, and with FFR 121m already in the bag from the proceeds of old M. Boussac's prize possessions, his newspapers and his race horses.

But M. Boussac had another pride, a loyal, low-paid but well catered-for workforce, and for Boussac workers in the Vosges the future is less sure.

The Boussac textile business has long been seen as a "lame duck," and it was the first in the re-elected government's list of companies in this category to be purged, in a plan which explicitly did not rely on official funds but which at a time of rising unemployment, involved only a "moderate" number of redundancies (1,200, plus 600 regradings).

Unions and opposition politicians challenge the degree of "lame-ness" that has been attributed to Boussac, suspecting that

the Willots have picked up a label, as well as, more obviously, the Christian Dior fashion business, the juiciest part of the Boussac empire.

The takeover is being made through Saint-Freres, a traditional northern jute company which the Willots took control of in 1968. This is now being transformed to pull all the Willots' industrial interests into one group, which goes provisionally by the name of Boussac-Saint-Freres, but which may well be called just "Boussac."

M. Jean-Pierre Willot, who has

The new owners of the Boussac textile concern have pledged themselves to its continuing survival. This will include the preservation of the Boussac label itself, as well as that of the Christian Dior fashion business, the most glamorous part of the ailing empire

been described as the "real boss" of the team, said in a rival bid from the Bidermann clothes group.

Labour reaction to the redundancy plan was muted, in comparison to protests earlier in the year when wages dried up and Bousac workers took to the streets. Not everyone felt the impact, and the unions' power proved limited, with less than one in 10 workers a member.

Factory occupations on the lines of the famous Lip watch campaign were planned, but there was only one partial occupation at a small plant in Epinal. When details were given of alternative employment.

The 100 or so plants involved in spinning and weaving cotton in the Vosges, many dating back to before World War I, have been in decline for a good 20 years. About 8,000 jobs were lost from 1974 up to May this year, when Boussac came under

judicial control. There are now about 3,000 at Boussac after the latest cuts—500 retired early at 55 and 700 were dismissed—and 14,000 spinning and weaving workers in the region overall.

The Lorraine regional council, in a report to the prefecture of the Vosges department, foresees 2,300 jobs disappearing in the next 18 months, and then 700 a year for four years—5,300 in total by 1983.

Boussac workers in Epinal, the departmental capital, have jobs earmarked at Wocoo, a West German company which plans to make rubber fixtures for motor vehicles, and others are offered retraining.

The Government made an effort to cushion the effect of M. Boussac's final financial collapse, announcing at the same time as the Willot takeover a plan to create over 1,400 new jobs and spend some FFR 500m on new roads between now and 1985.

After textiles began their decline in the late 1950s, there was a minor boom in new metal industry in the Vosges, but that ended with the 1973 oil crisis. Many workers have already left in the direction of Alsace to the east or Franche-Comte to the south, where Peugeot has its main plant at Sochaux. Pay there is some 30 per cent higher.

Agache-Willot has been laying off textile workers in the north of France, and it is feared further cuts will eventually be made in the Vosges. One unionist gave the Vosges another three years as a textile centre, and in any case it will cease to be a major one. The motor industry will probably generate some components plants. But otherwise the mountain area will have to rely on its thermal and mineral waters, its forests and its potential for tourism.

Sharp first half growth at BIC

BY DAVID WHITE

PARIS, Oct. 3.

FRENCH-BASED Bic group, the makers of throwaway pens, razors and cigarette-lighters, increased profits world-wide by 40 per cent in the first half of this year.

Net earnings of the group, which includes Biro Bic in Britain and a number of other subsidiaries and affiliates overseas, mostly engaged in making Bic ballpoint pens, rose to FFR 92.4m (\$21.2m) from FFR 65.6m.

Sales showed a more modest 9 per cent growth, just topping the billion-franc mark at FFR 1,075m compared with FFR 980m.

The results reflected a marked improvement in—among other sectors—Bic's interest in women's fashions, through Dirco, a holding company which brings together France's two leading makes, Dior and Colson.

Baron Marcel Bich, chairman and founder of Bic, told other shareholders earlier this year he planned to incorporate the private holdings in Dirco into the group, as well as his interests in Guy Laroche, an up-market men's outfitter, and Dufour, a boatbuilder.

Fuelling his hope that these companies would be in better financial shape by the time they were brought fully into the group, Dirco showed a net profit of FFR 18m in the first half-year, against a loss of FFR 11m.

Group profit last year dropped slightly to FFR 133.3m, from FFR 134.5m, a fall attributed largely to the cost of launching disposable razors into a highly competitive market.

Profit boost for Banque Rothschild

PARIS, Oct. 3.

BANQUE ROTHSCCHILD, which is to absorb its parent company Compagnie du Nord through a reverse takeover, expects profits for this year to top FFR 100m (\$23m) from which it will pay a dividend in excess of FFR 10.50 a share.

President Guy de Rothschild told a news conference here that the merger with Cie du Nord will give the bank a solid financial base. "It is a dynamic and offensive operation with emphasis on profitability. The bank is now entering a phase of maturity," he said.

The operation which will be completed before the end of this year, will be retroactive to January 1, 1978. The bank's results this year will not be comparable with those of 1977: last AP-DJ

Paris bourse active

BY OUR FINANCIAL STAFF

THE boom on the Paris stock market is reflected in bourse activity. During the period rose by 44 per cent against the levels of August, stretching the volume advances for the first nine months of this year to a full 70 per cent.

A breakdown of activity provided by the Stockbrokers Association shows that despite the upsurge this year in fixed interest investment, and the subsequent powerful display by bond market new issues, it is equities that continue to play the dominant role. Over the nine months equity turnover has more than doubled (up 108 per cent) and it accounted for very

Carlsberg buys stake in SVG

COPENHAGEN, Oct. 3.

CARLSBERG, the Danish brewery, has bought a major interest in the French company Societe Generale des Vins (SVG) and aims to increase significantly its beer sales in France, the company announced today.

In a separate development, Thomson-CSF and the French Industrial Development Institute (IDI) are said to be holding preliminary talks with a view to acquiring a stake in California Computer Products Incorporated (Calcomp), industry sources in Paris said today.

Enasa cuts losses

BY ROBERT GRAHAM

MADRID, Oct. 3.

ENASA, SPAIN'S largest industrial vehicle manufacturer plans to introduce short time and institute a scheme of early retirement to combat slack market conditions and cut its losses. The measures are expected to be introduced next year.

Provisionally, the management anticipates cutting 36 working days in 1978. At the same time, it will introduce a scheme whereby all workers reaching the age of 58 will be entitled to early retirement on 95 per cent pay.

The rate of Enasa, in which British Leyland held a 25 per

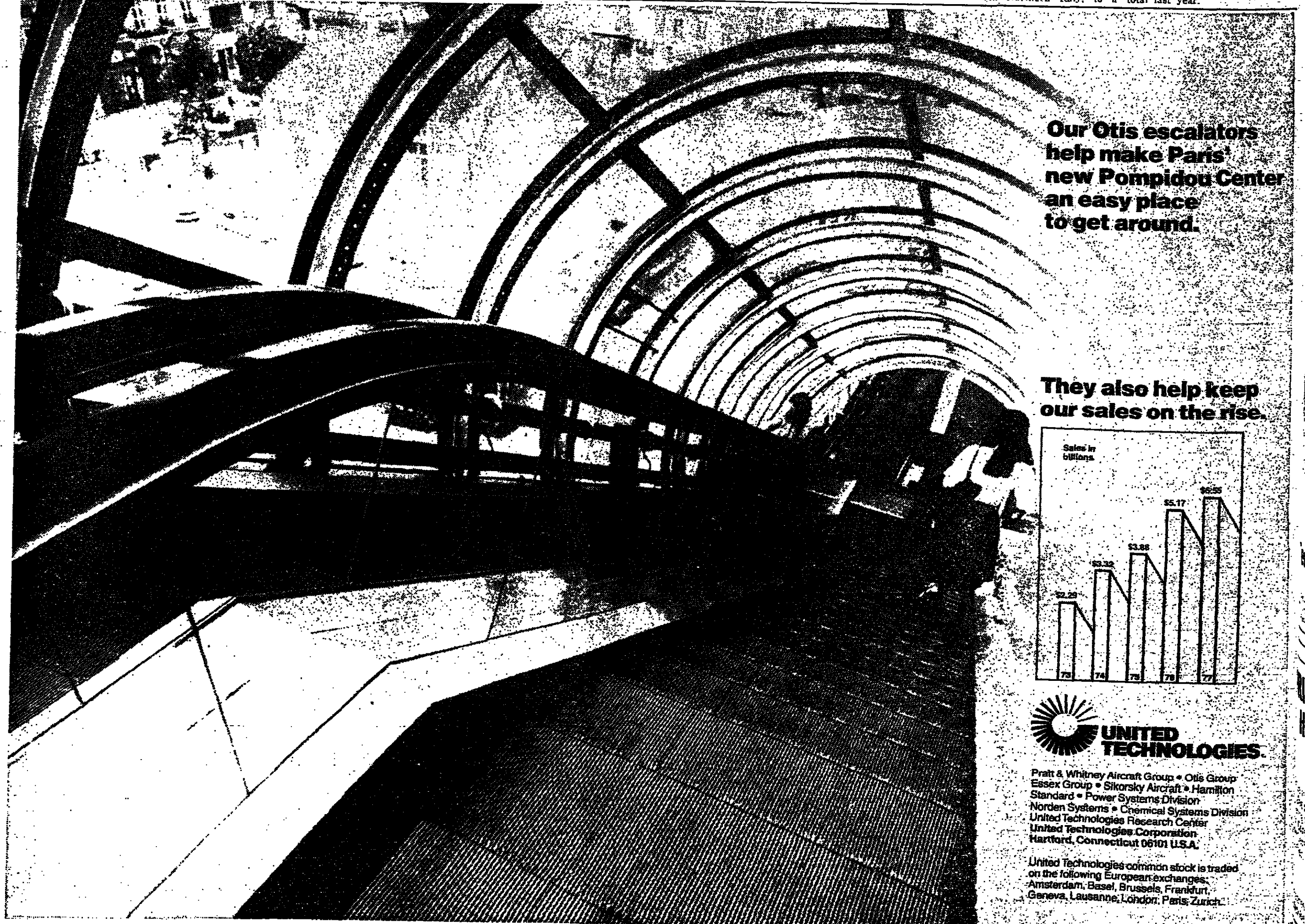
SAME denies Deere deal

BY PAUL BETTS

ROME, Oct. 3.

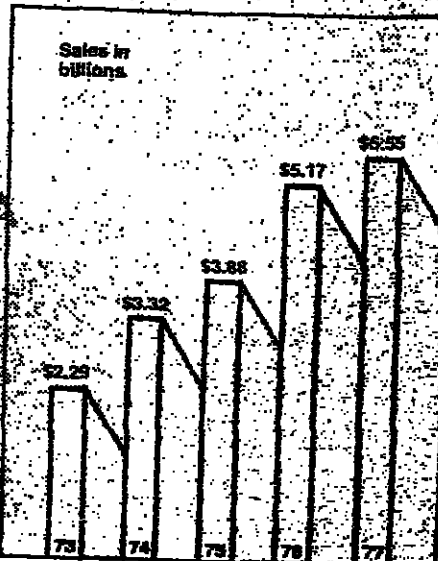
SAME, Italy's second largest capacity of some 350 engines a manufacturer of agricultural machinery after Fiat Trattori, has denied reports of a possible deal with the John Deere Group of the U.S.

Despite continuing difficult market conditions with an estimated drop of about 10 per cent in overall Italian tractor demand this year, SAME has just completed a L4.7bn (US\$57.1m) investment programme to boost production at its Treviglio plant in Northern Italy, to a total last year.



Our Otis escalators help make Paris' new Pompidou Center an easy place to get around.

They also help keep our sales on the rise.



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United Technologies common stock is traded on the following European exchanges:
Amsterdam, Basel, Brussels, Frankfurt,
Geneva, Lausanne, London, Paris, Zurich

WORLD STOCK MARKETS

\$2.50 to £1—82½% (81½%)

		1st		4th	
Sept. 25	Sept. 26	High	Low	High	Low
86.6	86.2	87.74 (4.1)	742.78 (25)	1051.70 (111.12)	86.2
86.4	89.30	86.73 (4.1)	86.73 (11.1)	275.88 (204.60)	86.4
242.82	242.82	251.4 (7.58)	135.51 (9.5)	275.88 (204.60)	242.82
105.78	105.78	110.26 (4.48)	105.34 (22.2)	105.34 (204.60)	105.78
28.330	28.370				28.330

reports were not available for this edition.

		1978		Since Completed	
Sept. 20	Sept. 25	Arch	Low	Sept. 15	Sept. 16
102.85	116.75	112.65	116.71 (12.6)	104.84 (5.6)	105.85 (1.0)
102.85	102.85	101.58	102.35 (12.6)	98.39 (6.6)	97.65 (0.7)

Sept. 20	Sept. 15	Year ago (approx)
4.85	4.65	4.58
9.45	9.08	9.43
8.47	8.35	7.64

	Oct. 2	Sept. 29	Sept. 28
Issues traded	1,834	1,875	1,861

Month	Oct.
-------	------

Full-time.....	419	506	72
Unemployed.....	652	72	41
Unemployed.....	618	—	41
New Lowa.....	—	—	—

		1978	
Sept. 27	Sept. 27	High	Low
212.15	—	215.15 (215)	192.20 (192)
217.01	—	219.35 (219)	193.50 (193)
197.05	1972.00	1290.0 (2,10)	292.0 (292)
254.7	255.4	272.0 (141)	322.0 (322)
253.3	259.4	271.1 (145)	324.3 (324)

		Oct. 3	Prev. week	1978	1977
Spain	60	67.41	67	112.1	57.61
Sweden	—	97.19	362.43	100	100
West Germany	—	274.1	250.2	54.1	54.1

MONDAY'S ACTIVE STOCKS			
	Stocks traded	Change	Close
Goldman Tins	431.00	14 1/2	14 1/2
Holladay Inc.	433.00	—	—
Par-Air Int'l. Airways	580.00	1/4	1/4
Norfolk Sline	244.80	—	—
Exxon	786.50	1 1/2	1 1/2
Rockwell	197.00	1/2	1/2
Cusumano World	123.00	—	—
Carrier	134.00	7/8	7/8
General Electric	193.00	3/8	3/8
NCH	145.00	1 1/2	1 1/2

OSLO				
	Oct. 3	Price Kroner	+ or -	Dr. 100 Nkr.
Bergen Bank	99	—	9 1/2	—
Borseng	77.61 1/2	—	—	—
Uredbank	115.0	1/2	1/2	—
Krems	515	1/2	1/2	—
Bank of Norway	112.0	1/2	1/2	—
Bank Hydrokraf	222.0	1/2	1/2	—
Storebrand	99.0	—	7 1/2	—

BRAZIL				
	Oct. 3	Price Cruz	+ or -	Cruz 100 Biv.
Acme	0.93	0.02	0.12	—
Banco do Brasil	1.44	0.03	0.16	—
Anda Financeira	1.91	0.01	0.07	—
Com. do Par	1.10	0.01	0.04	—
Lojas Amer. OP	0.57	0.02	0.15	—
Petrobras OP	2.57	0.02	0.15	—
Pirelli OP	7.20	0.05	0.36	—
Socies Cruz OP	0.47	0.00	0.20	—
Unip BP	5.55	0.05	0.25	—
Vale Rio Doce OP	1.10	0.01	0.16	—
Turnover: Cr.10.225. Volume: 84.500				
Source: Rio de Janeiro SE.				

JOHANNESBURG				
		MIRCS		
Oct. 3		Rand	+ or -	
Anglo American Corp.	14.00	—	—	
Charter Consolidated	14.10	—	—	
East Driefontein	13.95	—	—	
Gold Fields	14.00	—	—	
Hartmann	13.90	—	—	
Kinross	14.00	—	—	
Langenberg	14.00	—	—	
Rustenburg Platinum	14.00	—	—	
St. Helena	14.00	—	—	
Sonaberg	14.00	—	—	
Gold Fields SA	14.00	—	—	
Union Corporation	14.00	—	—	
De Beers Devel.	14.00	—	—	
Evrocor Ltd.	14.00	—	—	
East Rand Pty	14.00	—	—	
Wentworth	14.00	—	—	
President Brand	14.00	—	—	
President Steyn	14.00	—	—	
General Electric	14.00	—	—	
Welkom	14.00	—	—	
Waterford	14.00	—	—	
Western Deep	14.00	—	—	

		INDUSTRIALS	
ABCI	1.35		
Anglo-Am. Ind.	10.20		
Baylow Rand	2.10		
CNA Investments	4.20		
Curtis	2.10		
De Beers Industrial	12.00		
De Beers Consolidated	12.00		
Edwards SA	12.00		
Fortress Holdings	12.00		
Greenstann Stores	2.20		
Guarantee Assurance (SA)	2.20		

EUROPEAN OPTIONS EXCHANGE

[illegible]

uk 10 % ■ Hill Samuel

[illegible]

Price	+ or -	Dist. Yr.	Fr. Petroles. Gen. Uccide
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	Per cent	
Goldings	124.50	- 1
Assets Properties	24.50	- 1
1st Group	2.50	- 1
2nd Group	6.50	- 1
3rd Group	11.50	- 1
4th Group	2.50	- 1
5th Group	11.50	- 1
6th Group	2.50	- 1
7th Group	11.50	- 1
8th Group	2.50	- 1
9th Group	11.50	- 1
10th Group	2.50	- 1
11th Group	11.50	- 1
12th Group	2.50	- 1
13th Group	11.50	- 1
14th Group	2.50	- 1
15th Group	11.50	- 1
16th Group	2.50	- 1
17th Group	11.50	- 1
18th Group	2.50	- 1
19th Group	11.50	- 1
20th Group	2.50	- 1
21st Group	11.50	- 1
22nd Group	2.50	- 1
23rd Group	11.50	- 1
24th Group	2.50	- 1
25th Group	11.50	- 1
26th Group	2.50	- 1
27th Group	11.50	- 1
28th Group	2.50	- 1
29th Group	11.50	- 1
30th Group	2.50	- 1
31st Group	11.50	- 1
32nd Group	2.50	- 1
33rd Group	11.50	- 1
34th Group	2.50	- 1
35th Group	11.50	- 1
36th Group	2.50	- 1
37th Group	11.50	- 1
38th Group	2.50	- 1
39th Group	11.50	- 1
40th Group	2.50	- 1
41st Group	11.50	- 1
42nd Group	2.50	- 1
43rd Group	11.50	- 1
44th Group	2.50	- 1
45th Group	11.50	- 1
46th Group	2.50	- 1
47th Group	11.50	- 1
48th Group	2.50	- 1
49th Group	11.50	- 1
50th Group	2.50	- 1
51st Group	11.50	- 1
52nd Group	2.50	- 1
53rd Group	11.50	- 1
54th Group	2.50	- 1
55th Group	11.50	- 1
56th Group	2.50	- 1
57th Group	11.50	- 1
58th Group	2.50	- 1
59th Group	11.50	- 1
60th Group	2.50	- 1
61st Group	11.50	- 1
62nd Group	2.50	- 1
63rd Group	11.50	- 1
64th Group	2.50	- 1
65th Group	11.50	- 1
66th Group	2.50	- 1
67th Group	11.50	- 1
68th Group	2.50	- 1
69th Group	11.50	- 1
70th Group	2.50	- 1
71st Group	11.50	- 1
72nd Group	2.50	- 1
73rd Group	11.50	- 1
74th Group	2.50	- 1
75th Group	11.50	- 1
76th Group	2.50	- 1
77th Group	11.50	- 1
78th Group	2.50	- 1
79th Group	11.50	- 1
80th Group	2.50	- 1
81st Group	11.50	- 1
82nd Group	2.50	- 1
83rd Group	11.50	- 1
84th Group	2.50	- 1
85th Group	11.50	- 1
86th Group	2.50	- 1
87th Group	11.50	- 1
88th Group	2.50	- 1
89th Group	11.50	- 1
90th Group	2.50	- 1
91st Group	11.50	- 1
92nd Group	2.50	- 1
93rd Group	11.50	- 1
94th Group	2.50	- 1
95th Group	11.50	- 1
96th Group	2.50	- 1
97th Group	11.50	- 1
98th Group	2.50	- 1
99th Group	11.50	- 1
100th Group	2.50	- 1

Oct 3	Price Line	+ or -	Div. Yd.	Historical Before
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[illegible]

1. The first step is to identify the problem or question that needs to be answered. This involves understanding the context and the specific requirements of the task.

FARMING AND RAW MATERIALS

Zambian copper sales shock

BY JOHN EDWARDS, COMMODITIES EDITOR

ZAMBIA IS cutting back copper supplies offered to fabricators under direct supply contracts by 50 per cent in 1979, according to leading U.K. fabricators yesterday. At the same time, the Zambians plan to charge premiums over the London Metal Exchange prices for their copper.

It is proposed that wirebar prices be fixed at \$8 over the LME settlement price and cathodes at a premium of \$2 a tonne. This compares with present contracts which are based on parity with the LME price for wirebars and a \$4 discount for cathodes.

Fabricators were apparently informed by telephone of Zambia's intentions and are now seeking more formal discussions. On leading company described the setback as a "bitter blow" to customers who had put their faith in Zambia. He claimed that the fall in Zambian production did not justify such a large cut in supplies to companies that had put their confidence in Zambia.

Memorandum, the state-owned sales organisation, refused to make any comment last night. It is believed that the cut will apply to all contract customers, but there may be some exceptions where supply commitments have been linked with loans particularly in the case of the Japanese.

U.S. sugar policy setback

NEW YORK, Oct. 3. THE U.S. Senate Finance Committee approved today a Bill setting a sugar price objective of 17 cents a pound lessened greatly the chances of having a domestic sugar programme this year, according to trade sources here.

Some sources said the panel's passage of the Bill sponsored by Senator Frank Church was a serious setback, coming less than two weeks before the Congress recess.

The price objective of 17 cents exceeds the 15-cent level viewed as acceptable to the Carter Administration.

It is doubted that even a House-Senate conference committee will have enough time to produce a compromise package before the Congressional recess. The failure of Congress to pass a domestic sugar programme also will prevent a ratification vote on U.S. membership in the International Sugar Agreement.

'No case for metal stockpile'

BY ADRIAN DICKS

WEST GERMAN users of metals such as chrome, manganese and platinum, built up their stocks to a point where there is no case at present for considering a national strategic reserve.

At a meeting today at the Economics Ministry, a group of industrial users of imported raw materials agreed with Herr Dederer, State Secretary for the Ministry of Economics, that diversification of supplies and higher levels of stocks have greatly reduced the country's vulnerability.

Today's meeting is likely to set the tone of a report by an inter-departmental group of senior officials, due to be presented for Cabinet discussion on November 1.

Although it conforms closely with the thinking at the Economics Ministry, which has tended to play down the risks of shortages of raw materials, there has also recently been strong pressure on the West German Government to reconsider this

cast rod manufacture and, to a lesser extent, of wirebars. There is also a shortage of copper concentrates and blister, required by refiners, as a result of the production cuts, caused by un-economic prices or by other problems in the case of Zambia and Zaire.

News of the 50 per cent Zambian cutback proposals led to a general rise in the London Metal Exchange yesterday and prices were hardly changed in quiet trading conditions.

The premiums, planned by the Zambians, should make little difference to market price movements. It will depend on market conditions, however, whether they will be exaggerated or not. It is acknowledged that producers have a strong case for charging a premium over the LME price, since they are providing a guaranteed quality to a specified destination, hopefully on a regular basis. But the imposition of the premium relies on the ability of the fabricator to buy the copper to maintain competitive while passing it on to his customer. In other words, it would be difficult for one supplier to impose it without support from all the other leading producers.

Meanwhile lead continued to surge ahead on the London Metal Exchange yesterday. Cash lead gained \$10 to close at \$389.5 a tonne and establish a premium over the three months quotation,

An unpublished study by the Foreign Office last summer, for example, urged the creation of a national strategic stockpile along U.S. or Japanese lines, to be financed to the tune of DM 300-DM 400 (up to £1bn). Participants at today's meeting were reported to have agreed with the Economics Ministry line that stockpiles are primarily a

Coffee attacked by pests

BY SUE BRANFORD

THREE SPECIES of caterpillar, two of which were previously unknown in Brazil, have attacked 2m coffee bushes in the north of the State of Parana. The caterpillars are at present chewing up the leaves of the bushes, but agronomists believe that they may soon attack the buds which are just beginning to open.

It is proving difficult to control the caterpillars because they are resistant to nearly all types of spray. Moreover, it is not easy to tell them apart from the same colour as the leaves and only attack at night. The affected bushes belong to Mr. Jorge Wolney Atalla, once an obscure businessman and now one of the world's largest coffee and sugar cane farmers. It is estimated that he owns at least 12m bushes.

Giants take over in egg business

By Our Commodities Staff

THE RAPID concentration of the British egg industry in the hands of a relatively few giant-scale producers continued last year, according to a survey just produced by the Eggs Authority.

Fifty-four per cent of UK egg production last year came from the 468 holdings in the country with more than 20,000 caged layers.

A year earlier there were 435 producers on this scale accounting for 50 per cent of national egg output.

At the same time the number of small-scale egg farmers continued to shrink. About 5,000 producers with fewer than 500 hens gave up the business last year. Although there are still 69,000 of them, farmers of this size account for a mere 5 per cent of national egg production.

Since 1971 the total number of egg-producing holdings has fallen from 125,000 to 74,000 while the total number of layers has dropped to 49m from 54m.

Traders said the Swiss were among the biggest buyers in the afternoon. Earlier, Japanese activity pushed the price to \$146.50 an oz in the morning. Then, before the new peak in the afternoon, Impala Platinum, a leading producer, said it would maintain its price unchanged at \$250 an oz for the time being.

Platinum at new record

By Our Commodities Staff

THE PRICE of platinum reached a new record on the London free market yesterday, hitting \$148.50 an ounce, before settling at \$146.50 in the wake of gold's progress to a new high.

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'Dairy farming can thrive despite profits squeeze'

BY CHRISTOPHER PARKES

THE HAPPY prospect of future expansion for British dairy farmers and freedom from the disruptive influences which had hit them so hard in the past was held out yesterday by Dr. Keith Dexter, director-general of the Government's Agricultural Development and Advisory Service.

Even though the only way to squeeze the profits of the European industry as a whole, farmers in this country would be able to continue producing more milk, he claimed.

British dairy farmers could also look forward to a period of stable costs and returns, thanks mainly to the protective effects of EEC membership which would shield them from violent upsets in world markets.

The industry's strength lay in the big herds—big by EEC standards—of 80-100 cows, kept on family farms in those parts of the country ideal suited to grass production, he told a dairy conference in Blackburn.

However, he warned, there was still room for improvement. Although the best of British milk producers could compete with the best in Europe, average performance in this country was still short of the average in Holland.

The Common Market's attempts in recent years to balance milk output with demand had failed, Dr. Dexter said. There had been schemes to slaughter dairy cows or switch them to beef production. Milk farmers had been taxed.

"Despite these and other measures, EEC deliveries of milk rose by 3 per cent in 1977 and a further 4 per cent in the early months of 1978," he added. Talks on new production control projects had already started. "But whatever price levels are agreed and other measures taken, the milk surplus will only be restrained by squeezing the profitability of milk production," Dr. Dexter said.

Output this year was likely to be 4 per cent higher than in 1977 which was itself a record year. The trade in dairy cows and female calves was buoyant. And this was being achieved

at milk prices "well below" those in other Community states.

Dr. Dexter claimed that dairy farmers' net margins had recovered from recent depths. Milk prices had risen, feed costs were relatively stable, sales of calves and old cows produced good prices, and yields of milk per cow had risen, putting margins in between 15 per cent and 30 per cent of output on many farms.

In the 1960s net margins averaged about 10 per cent. In 1971 and 1972 a combination of favourable influences pushed them up to 23 to 24 per cent, but then economic and climatic disasters struck and margins fell to less than 5 per cent on many dairy units.

Dr. Dexter also promised greater stability in costs and returns than in the past decade. "The fluctuations in cereal prices and the violent movements in beef and cattle prices in the early 1970s reflected world events and the transitional problems of adjusting to Community arrangements."

But the EEC arrangements now provided a substantial degree of insulation against price fluctuations of the type which so affected UK farming a few years ago.

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Growers attacked over rubbish in potato bags

BY A CORRESPONDENT

THE CHAIRMAN of the Potato Marketing Board has criticised English growers for selling "rubbish."

Mr. Geoffrey Grantham warned that if they could not improve their quality, they could lose their lucrative market for earlier or new potatoes to overseas producers.

He told a meeting of Worcestershire and Herefordshire growers: "This year I found 5 kilos of rubbish in a 25-kilo bag of earlies from Lincolnshire."

"At that time, our own potatoes were selling for 5p a pound, whereas those from Cyprus and France were making 12p and 8p a pound."

"The Italians are continuing to increase their early potato acreage. The French have sent an extra 15,000 tonnes this year. And my big fear is that English growers will give away

their early markets."

Mr. Grantham said his condemnation of shoddy marketing also applied to growers of maincrop potatoes.

"It is foolish to put second quality tubers on the market, especially when there is a surplus and when the money is there," he said.

"If you are selling a good product, you can name your price. If you are marketing rubbish, and too many growers are, you have to take what is offered."

"When growers were putting their potatoes into a bag straight from the field, it was easy for a picker on piecework to lob in a stone or two. English growers should improve their presentation because foreigners could give retailers a graded product that could be relied on."

Call to end cruelty, not live trade

By Our Commodities Staff

BRITISH SHEEP producers have raised their voices against the clamour for a ban on exports of live animals for slaughter.

The National Sheep Association (NSA) has written to Mr. John Silkin, Minister of Agriculture—who himself favours an end to the live trade—saying that cruelty should be prevented rather than live exports banned.

"The NSA council wrote that the debate on the issue had become 'emotive on one side and concerned with short-term commercial advantage on the other'."

"Membership of the EEC demands support for the removal of barriers rather than their creation."

COMMODITY MARKET REPORTS AND PRICES

BASE METALS

COPPER—Steady in routine trading, but the afternoon was very quiet. In the morning forward metal fluctuated between 270 and 275.00. Volume changes hinged around 270-275.00. Copper was little changed at the outset and in London slightly easier trend developed, taking the price down to 270.50 before a close on the Kerb of 270.00. Turnover 15,000 tonnes.

	Official	Official	Official	Official
Wirebar	270.00	270.00	270.00	270.00
Cathodes	270.00	270.00	270.00	270.00
Small	270.00	270.00	270.00	270.00
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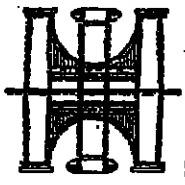
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HUNGARIAN INTERNATIONAL BANK LIMITED

LONDON

has pleasure in announcing that at a meeting of the shareholders held in London on 28th June, 1978, it was resolved to increase the authorised share capital of the bank by £1,000,000 to £4,000,000: the increase to be funded by shareholders' subscriptions totalling £500,000 and capitalisation of £500,000 of the reserves of the bank.

From 1st October, 1978 the capital of the bank is as follows:—

	£
Authorised and Fully Paid Shares	4,000,000
Subordinated Loan Stock	1,500,000
	<hr/> £5,500,000

Principal Activities

The company commenced operations in August, 1973 and is a fully authorised U.K. bank, carrying on an international banking business. Activities include:—

1. inter-bank deposit and foreign exchange dealing,
2. bill discounting, à forfait placement and trading,
3. short and medium term euro-currency loans,
4. documentary credits,
5. market making in secondary U.S. \$ London certificates of deposit (for major U.K. Clearing and Canadian bank issuers for periods of from one to six months),
6. market making in National Bank of Hungary eurobonds,
7. leasing.

Battles about reinsurance

BY JOHN MOORE

THE ARCAZE business of reinsurance has hit the headlines in a big way this year. A dispute between the London and Lloyd's market and the U.S. domestic insurance companies—over the large chunk of reinsurance income from the U.S. to the UK—is estimated to have risen by about 70 per cent to \$2.6bn.

New reinsurance companies in the U.S. became established at an awesome rate, provided they had the backing from financially capable parent companies. The Prudential Re, a subsidiary of the Prudential Insurance Company of America, was formed in 1973 when it was underwriting net premiums of \$51.5m. By 1976 the Prudential Re was underwriting net premiums of \$178.7m.

Reserves

Since then the world insurance scene has changed. Stock markets have recovered and have made insurance companies' reserves healthier, and for the last few years there has been a relatively favourable claims experience in many classes of business.

Because of this, many insurers and reinsurers have felt able to dip their toes into insurance markets where sometimes they have little experience. There is more willingness to insure and reinsure than there is demand to satisfy that willingness. This has provoked competitive conditions in certain lines of business the like of which has not been seen for years, for there is now a world-wide premium hunger.

Premiums in relation to the size of risk have been slashed to the bone. For instance, industrial fire premiums in Europe in relation to the value of insurance cover have fallen by around 25-30 per cent since 1973, and other property damage insurance premiums stand at rates lower than before the Darwin disaster of 1974.

Marine insurance has been hit by the slump in world shipping. With many ships laid up, less insurance is required by shipping groups. Aviation insurance business has been trimmed as airlines operate leaner airlines preferring to operate wide-bodied jets. But the value of individual risks has risen, requiring perhaps some increase in reinsurance cover while premiums are pegged by competition. Other insurance markets are equally competitive.

Many of the major insurance and reinsurance companies are declining—London companies

responsible for the poor premium conditions in the markets as the new, aggressive and relatively inexperienced companies.

Rather than lose business and market share because of refusing to offer cut price premiums, the major insurance groups are often prepared to underwrite at a loss and hope that they can make up the difference with profitable business, or offset some of the setback with reinsurance. The reinsurer in turn adopts a similar philosophy.

However, the reinsurance groups have their own problems. With stockmarkets recovering there has been a growing tendency for insurers with improved capital bases to retain more of their premiums rather than lay off their risks in reinsurance.

The new boldness of the insurers has in turn led the reinsurers into highly competitive conditions. And they are finding it increasingly difficult to be selective in their choice of business, which is often unprofitable and troublesome. As reinsurers trim their own rates, the insurance companies in turn increase their business volumes to the reinsurer—preferring to take a commission on their risks while at the same time making sure that their profits remain more consistent.

In those conditions many insurers rely increasingly on their relationships with brokers in order to provide business flows. Here problems often arise. For the business is occasionally produced for a reinsurer by what a judge described in a recent action as "smart young men who get a lot of business in a short time but leave a lot of troubles behind them."

The broker's job is to secure the best possible insurance cover for his client at the best possible (or cheapest) terms with the companies. The eventual profitability of the insurance business does not matter to him because he is paid a commission based purely on the amount of business he produces.

Reinsurers, in turn, are becoming increasingly reluctant to settle claims which might be reasonably contested when premiums are tight.

Inevitably once a reinsurer becomes embroiled in a dispute, speculation mounts in insurance circles about its financial position. But the broader issue of the financial strength of reinsurance concerns is one which has been the subject of much professional discussion in recent months.

At the recent annual gathering of reinsurance professionals in Monte Carlo, Mr. Gunther Benktander, a chief actuary of the Swiss Re group, gave a warning that "several of those reinsurance risk carriers which are active today, and at least on the surface seem to be solvent, will disappear within the next 10 years."

He stressed that the most important task of supervisory authorities was to secure solvency. Solvency is the relation between the size of the policyholder's surplus, the profit margin in the premiums, and the sensible net retention of an insurance company.

But many argue it is difficult to lay down solvency margins for reinsurance concerns because the margins depend upon the mix of their business and the policy they pursue on reserves. So opinions vary widely about what a suitable margin should be particularly to cover the eventuality of large claims arising from earthquakes or severe storm damage.

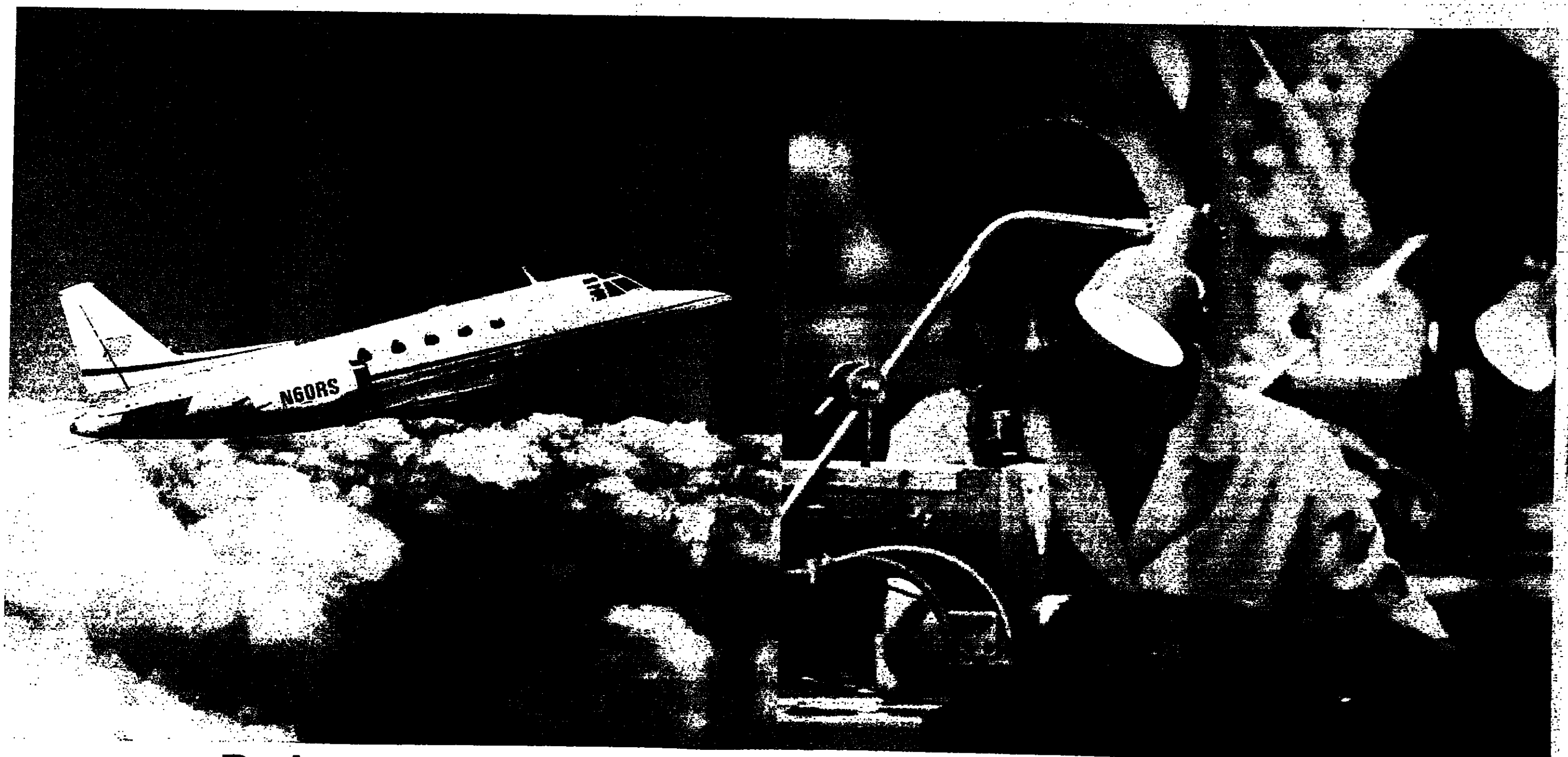
Mr. Benktander also warned of the danger from the "cowboy" competitor who perhaps was not aware of the practical consequences of pared premium rates. He is not eager to find out what his action costs because his first priority is to enter the market and create a position in it.

Surprisingly, for what has become an important function in the insurance industry, reinsurance is subjected to little in the way of government controls. Legislators have tended to concentrate supervision on the insurance companies because of their direct link with policyholders; the sharp end of the consumer market.

Catastrophe

What most fear in the insurance industry is that if a large natural catastrophe occurs then many reinsurance companies are likely to fall because of rate cutting and under-reserving (while direct insurers who have entered the reinsurance market are likely to pull out). Their failure to meet the claims will create a domino effect throughout the insurance market, causing many financial strains.

And yet, the industry argues, such a crisis is necessary to bring sanity back to the market. For it is only when the competition pulls out after a severe run of losses that premiums can again start to reflect the size of the risks which they represent.



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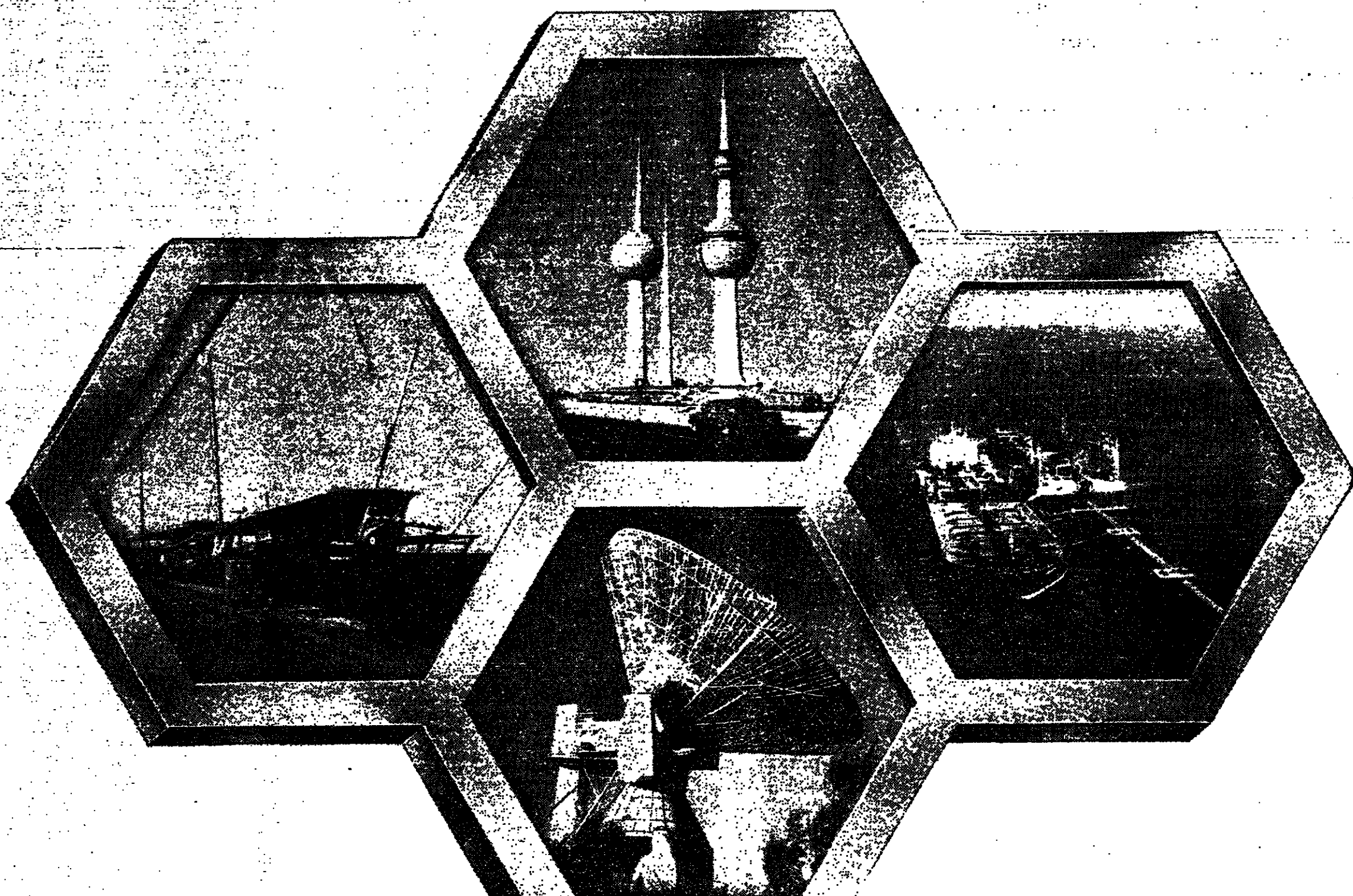


Rockwell International

Kuwait Banking and Finance

Kuwait is one of the wealthiest of the Gulf States and a major source of aid to the Arab world. Its financial sector, though relatively unsophisticated by Western standards, is gradually increasing its international involvement.

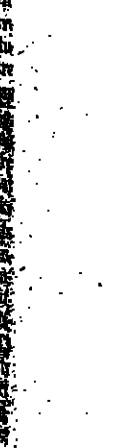
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NBK Full service bank able to take care of all commercial, merchant and investment banking requirements.
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 Money Market Division Tel: 44 1038/9.
 Telex: 3226, 3227, 3327 Kt.

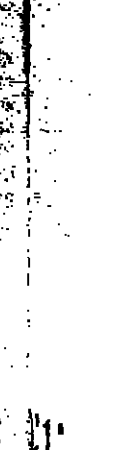


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It was with this background in mind that in 1976 the Government set up the inviolate "Fund for Future Generations" (GNP's share of current exchange rates) \$6.6bn between 1962 and the end of 1977. It has stood at 9.4 per cent of total GNP over the past seven years.

Manpower

Since the post-1973 boom re-
lentled there has been talk
from time to time, admittedly
of a somewhat unconvincing
nature, of the need to introduce
austerity into the economy.
This partly reflects concern at

The same applies to anticipated revenue for 1978-79, which (leaving aside interest from foreign holdings) is to reach KD2.3bn, compared with KD2.3bn in the previous year. Predictably, in spite of the Government's efforts to diversify, the bulk of this revenue—85 per cent, comes from oil. And it cannot be underlined too heavily the extent to which it provides The foundations of the economy. Besides its contribution to revenue it provides 91 per cent of total exports, 75 per cent of foreign exchange earnings and 70 per cent of the GDP. However, the budgetary surplus, after successive falls since 1973, is expected to record in the current financial year a rise of KD352m from KD285m. During 1978, it expected that total exports will fall by 1 per cent for the second successive year due to an anticipated decline of 8 per cent in crude oil production.

Oil production in 1977 averaged 1.97m barrels a day compared with 2.14m b/d in 1976, and it is Kuwait's aim for fiscal and practical reasons to keep the level at 2m b/d. This is partly because of growing local needs, such as industrial and domestic consumption, and for desalination plants and also to provide input for the LPG plant, year with the aim of stabilising the local capital markets. The banking scene as a whole at the same time, the Muslim community realised that industrial and commercial ventures were being run back the other way, as an active market in Kuwait-dinar-denominated bonds, largely because there were few participants beyond the five

Kuwait may have some problems but it also does have the richest citizens on earth. According to the Union Bank of Switzerland the per caput GNP in 1977 was \$11,950, representing a real rise of 4.5 per cent over the previous year. Unlike many countries where such a statistic represents mainly levels of direct Government spending, in Kuwait's case it reflects more genuinely the economic standing of the individual citizen in the light of long standing policies to redistribute the state's wealth as broadly as possible. Thus it has an advanced, cradle-to-grave social welfare system. Wages are kept high. The Government assists local businessmen. In addition there has been a long standing Government policy of buying expensive land from the public and selling it back cheaply.

Thus in the current financial allocations for ordinary spending, development and property were up by 57 per cent, and the budget in outline, predicted to be more precise than its predecessors. The draft plan for 1977-8—but it should be remembered that planning in Kuwait is more of an exercise in national guidelines than in drawing up targets—indicates that the state is aiming more at services

Steady growth continues

secondary market has greatly improved. But there is still a distinctly Third World look about the list of borrowers, and the KD market needs the appearance of some good names to avoid the impression that only those who have nowhere else to go make the trip to the Gulf.

One big problem is that the average international borrower is likely to be unfamiliar with the KD as a currency. Many will be under the impression that it is a much stronger currency than it is. In some instances of rates being imposed on kibar (Kuwaiti interbank offered rate).

One recent loan with a KD element was a split facility of KD11.7m and \$25m—arranged

Still, with a permanent surpluss the Central Bank can set the level of the currency very much where it likes, and it is a matter for conjecture what policy might be in, say, ten years. The stronger the Central Bank would trim the domestic inflation rate. On the other hand, Kuwait has provided a very large volume in K.D. a devery

...denominated
...to developing countries.
...any change in policy
...in favour of a strong KD would
...impose hardship to these territories.
...A more fundamental problem
...is that there are no natural
...sources of dinars, in the
...shape of foreign corporations
...which want to make investments
...and liabilities. In this
...sense, the KD is always going
...to be a rather artificial currency
...which to borrow.

A good deal has been achieved. It is five years since the first international KD bond issue was launched for the Philippines by KIIIC, and the pace accelerated until 1976 when 13 issues raised KD78m. There was a reversal in 1977, when six borrowers raised only KD31m. But the market has picked up again much more strongly this year.

holders, including foreign banks, which are keen to get some sort of foothold in the protected Kuwaiti banking market, but under Kuwaiti law such foreign interests are limited to a maximum of 49 per cent.

The attraction of developing the investment sector comes from the fact that it makes sense to establish a financial-services industry around the export of capital, just as it can make sense for an oil-exporting country, like Kuwait to build

In the first year, months bond issues totalled KD89m, with a trend towards longer maturities. The latest KD10m issue for Elecon stretched out to 12 years as a coupon of 8½ per cent—and this was, incidentally, the first issue for which the three "Ks" have combined in the management group.

Some dealers close to the market expect there to be a number of other issues—perhaps as many as six or seven—before the end of the year, and the

Kuwaiti financial institutions have also been very active in syndications, something of a boom area in the Middle East this year also a wave of Gulf borrowers have come to the market. An example was the recent \$100m loan for United Arab Shipping Company, which was managed by KitiC along with Gulf International Bank and Union de Banques Arabes et Francaises.

Arab bankers have been seizing the opportunity to squeeze screening and that is generally a satisfactory basis for taking on commitments of any size.

However, it is inevitable the building an international capital market from scratch will take time. Considering that few of them have been around for more than five years, Kuwaiti investment bankers have already come a long way. They are determined to go a lot further.

Barry Riley

Barry Riley

Commercial banking

Competition begins to increase

THE NORMALLY rather cosy world of commercial banking in Kuwait has recently become a little less tranquil. As well as enduring a rather mild Kuwaiti version of a credit squeeze in 1977—when at one time annual growth of the narrowly defined money supply dropped to around 15 per cent—the banks have had to contend with the intrusion of the Bahraini Offshore Banking Units into some of the Kuwaiti dinar money and banking markets.

Expansion of the balance sheets of existing banks has so encouraged the Government to allow new institutions to open up. Burgan Bank was launched last year, Kuwait Finance House—which is to operate under strict Islamic law—has opened its doors within the past few weeks, and there has even been the unprecedented appearance of a foreign registered bank, Bank Bahrain and Kuwait, on the scene.

The pattern of commercial banking in Kuwait has normally been one of buoyant deposits and inadequate domestic lending opportunities. That is certainly the picture at present. The banks have become very liquid, and while deposits grew by nearly 7 per cent in the first half of 1978, bank credit expanded at less than half that rate.

The slowdown in credit, in fact, dates from the third quarter of 1977. For a time there was a corresponding sharp reduction in the rate of growth of the money supply in Kuwait, but the action of the Government in pumping large sums into the stock market in support of operations contributed to a surge in the monetary aggregates early in 1978.

The tailing away of the economic boom during 1978 had its real estate borrowers over-reached, and many importers and themselves carrying much larger stocks than they had intended. During 1977 many of these positions were unwound, and construction and real estate all bear the scars of earlier over-optimism, and demand has moved slow to recover.

There are signs, however, that bank credit has helped to fuel this year's stock market revival. There are also indications that resurgence of trade activity has produced, within the past few months, a useful upturn in the rate of credit business.

And interestingly, it does not appear as though the commercial banks have succumbed at all heavily to the temptation to bleed more extensively in foreign currency assets as a way of employing domestic surpluses. The banks' net foreign

exposure and holdings of foreign investments rose only modestly in the first half of the year. For the commercial banking sector foreign currency assets now represent only about a third of the balance-sheet total, a far cry from the 54 per cent of 1974, let alone the 70 per cent of 1971. Besides reflecting the growth and development of the Kuwaiti economy, this pattern is also explained—particularly more recently—by the growing uncertainty over exchange rates.

Still, the Kuwaiti commercial banks obtain substantial deposits in dollars and other currencies in the normal course of their business, and in absolute terms their foreign currency business has continued to grow. Increasingly they now have the funds to develop their own syndicated loan business: a number of substantial dollar credits have been arranged in the Gulf this year.

Interbank The commercial banks have become internationalised in another way, in that there have been signs of a growing regional interbank money market involving Kuwaiti banks and banks elsewhere in the Gulf. To a large extent this market is in Kuwaiti dinars, and some of the most important participants are the OBU's in Bahrain. According to the Central Bank of Kuwait, KD time deposits maintained by the commercial banks with the OBU's amounted to around KD 187m at the end of 1977, while the OBU's had some KD 140m deposited with the Kuwaiti commercial banks.

Undoubtedly the OBU's have contributed to the development of the banking sector in Kuwait: before they came on the scene, there could scarcely have been a KD money market at all. On the other hand, the OBU's represent competition for lending. Dinars deposited with the OBU's are liable to come straight back as competitive loans—and because the OBU's are permitted to operate on less stringent liquidity ratios than banks in Kuwait, they are often in a position to lend at lower rates.

However, on several occasions the OBU's have gone short of KDs and the Kuwaiti banks have had opportunities to bring home to the OBU's just where the domestic market is. The big advantage of the Kuwaiti banks lies in their possession of currency swap facilities with the Central Bank, so that they are under no pressure to supply the OBU's with KDs.

The last time this happened was in the middle of July, when overnight rates shot up to 10 per cent compared with the more normal 4 per cent or so.

Certainly the determination of the Kuwaitis to keep control of their banking system remains undiminished—and the decision to allow the Bank of Bahrain and Kuwait, registered in Bahrain and owned as to 50 per cent by Bahraini citizens, to open a branch in Kuwait City's commercial district cannot be taken as representing any kind of precedent.

There is a tortuous explanation for this concession, relating to the close historical links between Kuwait and Bahrain, and the granting of permission for an Offshore Banking Unit in Bahrain, a consortium bank, A number of Kuwaiti financial institutions, including commercial banks, own the other 50 per cent of BBK, and it was made a special case. Even so, it took three years before permission for a branch in Kuwait was finally given, and under its present licence no more branches are allowed.

BBK eventually opened for business in Kuwait last April, with independent capital of KD 3m. So far it has operated in rather unpromising conditions, with the other Kuwaiti banks all very liquid, and a general feeling that the other commercial banks, despite being its shareholders, are not very pleased at its presence.

BBK came on the scene just a year after the launching of the substantially larger Burgan Bank, which at the end of 1977 had total capital of KD 10.6m and boasted a balance-sheet total of KD 176m. Burgan was set up after a period of extremely rapid expansion of the banking system in Kuwait—in early 1977 almost all the banks substantially increased their capital through rights issues.

It appeared that the Government wanted to establish a broad ownership for the new bank and stringent limits were placed on the size of individual private shareholdings. In the end, however, the Government itself took up 51 per cent of Burgan's capital: the Government already owned half the capital of the Bank of Kuwait and the Middle East, but does not have significant interests in the other commercial banks (apart from Kuwait Finance House).

It is particularly necessary in Kuwait for there to be a close relationship between the Central Bank and the commercial banks, for not only does the Central Bank impose liquidity controls and require regular reporting—on a monthly,

quarterly and annual basis—but it also imposes a rigid system of interest rate controls. If this interest rate structure were to become unrealistic the banks would find their development severely hampered.

This threatened to happen until the law was changed in November, 1978, allowing the Central Bank the flexibility to change interest rates according to circumstances. The old rigid interest rate ceiling of 7 per cent was then abandoned, under pressure from worldwide interest rate rises.

The new structure, which was introduced in February, 1977, and has not been changed since, is rather complex. The maximum lending rate, which applies to loans in Kuwaiti dinars extended for more than one year, is 10 per cent, but a 7 per cent ceiling still applies for short-term secured lending for financing "productive" economic activities (such as imports, exports or construction). There is an intermediate 8½ per cent rate for "non-productive" lending. Meanwhile, small savers have been assured a rate of at least 4½ per cent on savings accounts, whereas 4 per cent had generally been paid previously.

Opened These interest rate levels have opened the way for the banks to develop their term lending business. But there are still areas where they find it hard to operate—notably in consumer instalment credit, where the high cost of paperwork and bad debts cannot be accommodated within a 10 per cent ceiling.

Overall, the commercial banks in Kuwait currently present a healthy if somewhat unexciting picture. They are well capitalised and still expanding comparatively fast by international standards, although increasing competition and weak loan demand are putting their profits under a certain amount of pressure, while the recent new entries to the market have worsened the perennial problem of staff shortages.

Some bankers complain that the Government neglects the Kuwaiti commercial banks, preferring to place the vast bulk of its deposits abroad and favouring some of the other Kuwaiti financial institutions, notably the three "Ks." But it is also true that the commercial banks are isolated from the full blast of international competition, and are fortunate to be able to operate in a protected market consisting of the richest people in the world.

Barry Riley

State investment

Piling up the money

LIKE MANY of the OPEC nations which suddenly came rich after the 1973 oil price leap and have subsequently managed to spend their way out of surplus once more, Kuwait has been piling up wealth for many years in the past and is likely to do so in the foreseeable future.

Kuwait has been learning to live with its oil wealth since the early 1960s, and in process has become one of the world's most experienced, as well as one of the largest, oil investors. For more than two decades the Ministry of Finance has been accumulating a reserve the size of which is a closely guarded secret, but probably of the order of \$100m.

The investment activities of Kuwait came briefly to public attention in 1974. In that year the Government topped up a 14 per cent stake in Daimler-Benz German motor group, and topped in during a takeover to buy the British property company St. Martin's, which was subject to an offer from Commercial Union.

The Kuwait Investment Office bought St. Martin's for over \$100m, and in held a somewhat tight-fisted Press conference to explain the deal. But the Kuwaitis were surprised and set by the scale of the financial reaction to their purchases in both Germany and the UK. Since then, their profile has got lower and lower while their portfolios have become larger and larger.

Insights into the KIO's shareholdings came from new disclosure rules that these cannot be disturbed by owners of stakes of 5 per cent or more (against the previous 10 per cent) to come out into the open last year. It emerged that the KIO held more than \$400m of British company shares, with a particular liking for insurance, banking and other financial holdings.

This British portfolio is, of course, insignificant in a global context, and the Kuwait Government now has some 17 portfolio managers in the major investment centres around the world. It is also a big investor in bonds, this side of its reserves being largely handled by the big investment companies in Kuwait—the three "Ks," KFICIC, KIC and KICIC.

The major development in recent years has been the setting up in 1976 of the new "Special Fund for the Coming Generations." Kuwait has less need than most oil producing countries to worry about what happens when the wells dry up, for at recent rates of production existing proven reserves would last for the best part of a century. All the same, concern about the eventual exhaustion of the oil wealth has become a political factor.

In the past the Kuwait reserves have occasionally been tapped for special purposes—such as grants to other Arab states at times of war, or for uncommercial aid-type loans and investments which are unlikely ever to be paid.

The concept lying behind the Special Fund is that a reserve can now be accumulated which is by law inviolable, and which can be invested in top class equities and other long term investments, with the assurance that these cannot be disturbed for at least 25 years.

To begin with the new fund had transferred to it some \$30m worth of the most desirable assets in the existing reserves, and the 1973-76 budget surplus of \$1.75m. Since then, the Special Fund has received 10 per cent of the Government's total revenues, non-oil as well as oil. It should be emphasised that the entitlement is related to revenues, not surpluses.

The whole of the Kuwait reserves come under the authority of the Finance Ministry. They encompass a huge range of assets: cash and liquidity (which is kept in the form of negotiable instruments), government securities, corporate and institutional bonds, convertibles, equities and property.

Equity There are also direct equity investments in the Arab world and elsewhere, the capital of the State institutions (including the Central Bank, the Kuwait Fund for Arab Economic Development and Kuwait Airways), loans to an investment in Kuwait public companies, loans to the IMF and the World Bank, contributions to oil producer sponsored project aid funds, investment companies and recycling institutions, and bilateral government-to-government aid loans.

The extremely long time scale for investment naturally lends a certain detachment to the Kuwaiti point of view. Short-term problems such as the weakness of the dollar really only concern them to the extent that they hold cash balances in advance of expenditure.

To the short-term investor the weakness of Wall Street, exacerbated by the weakness of the dollar, represents a severe performance problem. In contrast the Kuwaiti Ministry of Finance, taking a 25-year view, is likely to conclude that it is even cheaper to buy dollar assets, while the fall in value of its existing investments represents only a temporary fluctuation.

Certainly the Kuwaitis have adopted very conservative investment policies. They are not known for switching large investments, or trading out of one market into another. It would, of course, be very difficult for them to embark upon active portfolio management with \$25m of assets, for attempts to shift even a fraction of these investments would lead to chaos on the stock markets and foreign exchange markets of the world, and would be self-defeating.

The Ministry of Finance is prepared to move its cash balances around as far as it can to avoid losses. But Arab Governments resist any suggestions that they actually engage in currency speculation as such, in the pursuit of short-term profits. The topical problem is, needless to say, the weakness of the dollar, and this certainly makes for difficulties for the Kuwait Government in budgeting and making revenue projections. But as far as the long-term is concerned, it looks as though the Kuwaitis are still strongly backing the U.S.

To an extent this is because only in the U.S. are the capital markets large enough to cope at all easily with the immense impact of their investment revenues. But it is also because on a 25-year view the U.S. looks a more certain political prospect than alternatives like Europe.

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Main balance-sheet figures

	End 1968	End 1972	End 1977
Year of operation	1	5	10
Capital	2,000	2,000	7,000
Capital & Reserves	2,148	4,085	28,608
Deposits	50,211	86,754	442,829
Advances	23,711	38,851	234,577
Contra-accounts	25,703	42,149	181,445
Total Balance-sheet	78,222	133,288	653,582
Net profit	322	908	2,215

(figures in thousands of Kuwaiti Dinars)

1KD.=280US \$end 1968-1KD.=3-U.S.\$end 1972
1KD.=3.57US \$end 1977



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KUWAIT BANKING AND FINANCE IV

The Stock Exchange

Social as well as a business forum

AN EVENING stroll on to the trading floor of the Kuwait Stock Exchange—which is open until 8 p.m. each night—is a social event as well as an opportunity for a financial flutter for wealthy Kuwaitis.

They do not need to be members, for this is a remarkably unstructured stock market with no formal membership of any kind (though brokers need a Government licence). They do, however, need to be wealthy. The minimum trade is a 1,000-share block, which for one of the popular bank or financial shares could easily mean an investment of well over KD 10,000, equal to more than \$35,000.

Statistically the market is full of surprises. Thus National Bank, the country's largest, is capitalised at no less than \$550m—or roughly the same as the Midland or Lloyds in London. Yet the National Bank disclosed net profits of a mere \$9.5m for 1977, and showed shareholders' equity of around \$100m, only a fraction of that displayed by the above British clearing banks.

This is typical of the hair-raising share valuations to be seen on the Kuwait market—hair-raising, that is, to observers accustomed to the more down-to-earth ratings which apply in New York or London.

Yields are rarely more than 1 per cent and often less. Price-earnings (p/e) ratios, seldom calculated, are typically in the range from 30 to 80. In the case of the banks, for instance, the average p/e is around 60—and this is calculated on the basis of profits which bear no tax other than the 5 per cent of profits which Kuwaiti companies are obliged to set aside in favour of the Kuwaiti citizens who alone can own shares. Given the Kuwaitis' liking for quick deals, and the fact that they are among the richest people on earth, the dizzy level of share prices becomes a little less surprising. The total equity market capitalisation is now of the order of KD 3bn.

What makes the Kuwait stock market particularly unusual is its degree of concentration. It is reckoned that the active share trading community consists of no more than 500 or 600. There are only 36 companies listed by the exchange. Yet in terms of turnover it ranked as the twelfth largest in the world in 1976, coming ahead of markets like the Brussels or Italian bourses.

During last July, a busy month, shares were traded to a record value of KD 204.5m, or some \$380m. London equity turnover for that month, calculated on a comparable basis (ignoring London's double counting) was roughly \$800m. Brokers' commissions in Kuwait are, however, tiny compared with the London scales, and of course there are no stamp duties to inflate the cost of trading.

Profits

Naturally, such a narrowly based stock market can be volatile. The boom in the Kuwaiti economy which followed the surge of oil revenues in the mid-1970s was spectacularly reflected in share prices. Indices are not available for periods before the beginning of 1976, but from that point on the bull market is well recorded.

Taking January 1, 1976, as 100, the unofficial All-Share Index reached over 250 by early December of that year. Huge profits being made during this period from the property boom helped to fuel the stock market's rise. Property shares, in fact, led the way for other sectors, with a roughly four-fold rise, while the investment companies, which were also heavily involved with property, followed closely behind.

Eventually the property boom ground to a halt, however, and the stock market followed suit. Once it had stopped rising it ran into technical weakness which resulted from the Kuwaiti system of forward dealing. Shares are bought at a premium for settlement up to a year ahead—a premium which reached 25 per cent at one stage in 1976. When these commitments became due for settlement during 1977 some individuals found themselves overstretching.

Moreover, many companies, notably almost all the banks,

took the opportunity to launch rights issues early in 1977. This took something like KD 120m out of the market.

Several non-Kuwaiti companies also tapped the market at about this time—like the Sharjah Group which is reckoned to be 95 per cent Kuwaiti-owned but is not eligible for a listing in Kuwait (which does not prevent lively unofficial trading in the souk).

Amid all this, company profits for 1976 turned out—except for the banks—to be disappointing. The whole Kuwait economy suffered something of a pause at about this time, with credit getting generally tight in the face of an over-enthusiastic property market and excessive stocks in the hands of importers. Yet there was no catastrophic decline, just a drift, with the All-Share Index declining to a low of about 155 in December 1977. This fall of about 25 per cent was not unusual even by the standards of, say, London or Wall Street. But the Kuwait Government intervened on a drastic scale to stop the rot.

In a move which says a lot about the paternalistic style of the Government of Kuwait, the authorities stepped in as unlimited buyers of shares at prices fixed on a formula related to recent lows. In all this move cost the Government around KD 150m—more than half of which was taken up by eager shareholders of United Real Estate and Gulf Insurance who had had their fingers burnt in the property market. By contrast no bank shares were sold to the Support Fund.

When the fund was closed on April 8 this year there followed a series of share splits by companies aiming at improving the marketability of their paper. There were three waves of these splits in April, May and July whereby companies slimmed their shares, often with a nominal value of KD 7½ or KD 10, down to KD 1 form.

As the impact of these moves began to be felt, and as credit conditions became once again very easy, the market started to boom again. Recently the All-Share Index has been pressing up through its 1976 peak, representing a gain of roughly a

quarter so far in 1978. Although one or two more rights issues are in the offing—one is under way from National Industries—the market overall looks quite firm and solidly based. There is beginning to be optimism about the 1978 profit figures (all companies report for the year to end-December).

One of the market's strengths is the freedom with which deals can take place in many leading shares. Very large trades can take place without much impact on prices—on one day, recently, for instance, shares in Kuwait International Investment Company worth over KD2m (£3.7m) changed hands but the deals led to only a minor fall in the share price.

The Kuwait stock market remains very loosely structured, those of companies registered in other Gulf States—should be admitted to official listing. An opening up of the Kuwait Stock Exchange, however, could easily undermine the very high valuations which depend essentially on the market's exclusivity. The Government's attitude is likely to remain crucial. Will it consider selling back the shares it has bought within the past year (and on which it is currently showing a useful paper profit)? Will it permit a wave of new issues listed, which could greatly increase the supply of shares?

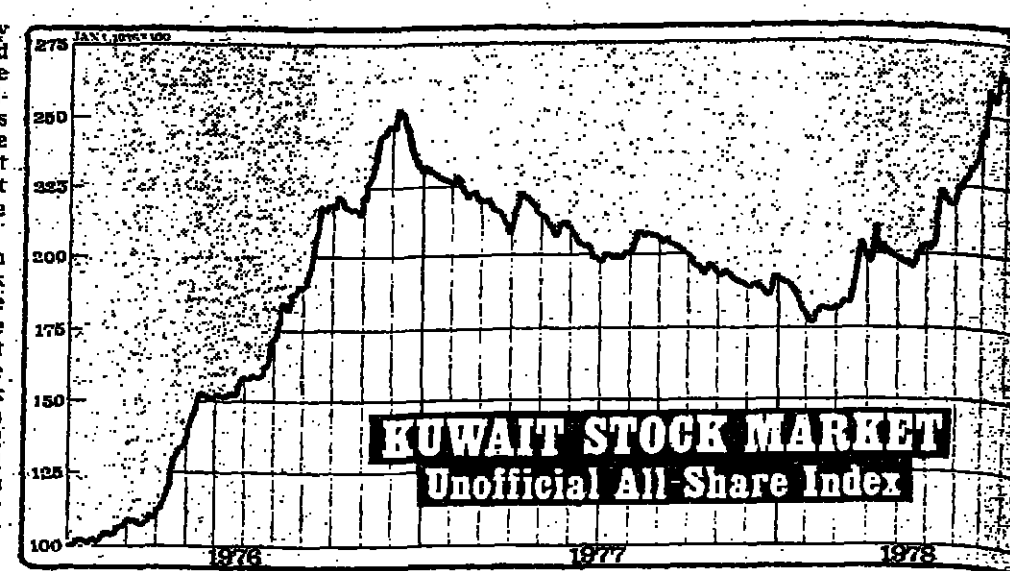
It is plainly very attractive to company promoters to float new issues off at huge earnings multiples, and at values representing many times the original capital invested. Moreover, the cost of new capital via rights issues is extremely low and no fewer than 314,000 shares are currently showing a useful paper profit?

Will attractive to companies already holders—a reflection of the

In April, 1977, a temporary trading floor was opened and the market now features price display boards and a closed-circuit TV system to relay prices to brokers' offices. Plans are being made for a purpose-built stock exchange building but it may be four or five years before this is ready.

Meanwhile the introduction of a system of formal stock exchange rules is believed to be under consideration. In the longer term too some thought may need to be given to the relationship between the stock market—which deals only in equities—and the KD bond market, which has developed entirely separately. There is also some debate over whether non-Kuwaiti shares—notably those of companies registered in other Gulf States—should be admitted to official listing.

An opening up of the Kuwait Stock Exchange, however, could easily undermine the very high valuations which depend essentially on the market's exclusivity. The Government's attitude is likely to remain crucial. Will it consider selling back the shares it has bought within the past year (and on which it is currently showing a useful paper profit)? Will it permit a wave of new issues listed, which could greatly increase the supply of shares?



right of all Kuwaiti citizens at least one share in any company.

Three companies are currently expected to seek listing on publishing their accounts in 1979. But there is no sign of moves by existing private companies to become public and obtain market quotations.

The Secondary Market

Moves towards added strength

A HEALTHY primary capital market can only be built upon the basis of an active secondary market, and financial institutions in Kuwait have been working hard in the past couple of years to fill yawning gaps in the country's financial infrastructure. The result has been a dramatic improvement in the degree of sophistication of Kuwait's capital markets.

Although bond issues denominated in Kuwaiti dinars have been made for a number of years, and from about 1974 on meant that they were quickly

swallowed up in banking portfolios. The banks were meanwhile exploring ways of lengthening the maturity of their deposits, which to an overwhelming extent were short-term (though the development of the Bahraini OBU, which are very active in the KD markets, had been greatly improving the effectiveness of interbank dealings).

Issuing certificates of deposit (CDs) was an obvious way for the banks to achieve their objective—but this came up against the problem of the absence of an effective secondary market. The banks would have risked giving KD CDs a very bad name if holders had found it impossible in practice to trade the paper.

The key development was the appearance on the scene of ACTS, a market maker with a no-nonsense name, the Arab Company for Trading Securities. The decision to launch ACTS—owned 65 per cent by Kuwait International Investment Co and 35 per cent by the Industrial Bank of Kuwait—was taken in 1976, though it was April 1977 before operations started.

The impact of ACTS has been rapid and substantial. In the bond market it is now possible to deal freely in amounts of KD 100,000 on half-point spreads, and there have been important benefits to the primary market.

Before ACTS was launched there were 22 KD bond issues in public hands, all of them quoted at a discount. Since ACTS has been in operation, however, another 15 issues have been launched on a declining trend of coupons and with maturities gradually extending as far as 12 years. The total float of KD bond issues is now some KD 330m.

Once ACTS was trading successfully, moreover, many banks became convinced that the time had come to test the water with CDs. In October 1977 Gulf Bank announced the issue through KIC of \$6m of tranche CDs, with maturities ranging up to 2 years.

Two other commercial banks, Alahli and the Commercial Bank of Kuwait, have also issued CDs, as have two of the specialist banks, IBK and Kuwait Real Estate Bank. All except Alahli are now offering tap CDs, and maturities extend to 3 years. Another innovation was KREB's issue of the first KD floating rate CDs in April this year. The total of KD CDs now in issue is estimated to be just over KD 100m.

With a capital of KD 1m, ACTS is strongly backed by its shareholders. It publishes a weekly comment on the bond and CD markets. And as part of

its broader market-making function is trying to improve the depth of the KD bond market and develop a retail market which it claims other Kuwaiti institutions have been neglecting.

According to ACTS manager, Yusuf Abu Khadra, useful demand has been building up among expatriates, like Egyptians, who are attracted by the 8½ or 9 per cent return on bonds compared with only 4½ per cent on savings accounts.

But it is less easy to attract the interest of Kuwaiti citizens who—unlike expatriates—have access to the much more lucrative property and share markets. To the Kuwaitis bonds seem rather tame. At the same time, however, ACTS is attempting to set itself up as something of a training school for Kuwaiti citizens in the operation of capital markets, and around 15 have passed through the company's departments so far.

Besides KD bonds, CDs and promissory notes, ACTS makes a market in four U.S. dollar issues which were effectively placed around the Middle East. It is also looking at the possibility of trading in other Gulf

issues such as Bahraini dinar bonds.

But can one market maker create a proper secondary market? It is true that the presence of ACTS has encouraged other Kuwaiti financial institutions to trade more actively in the market. But many in the Kuwaiti financial community feel that more market makers have to appear on the scene and the secondary market has to survive a test of harsher credit conditions before the KD market can be approached with full confidence.

It is noticeable, for example, that two of the large commercial banks, including National Bank of Kuwait, the biggest of all, have declined to issue CDs so far.

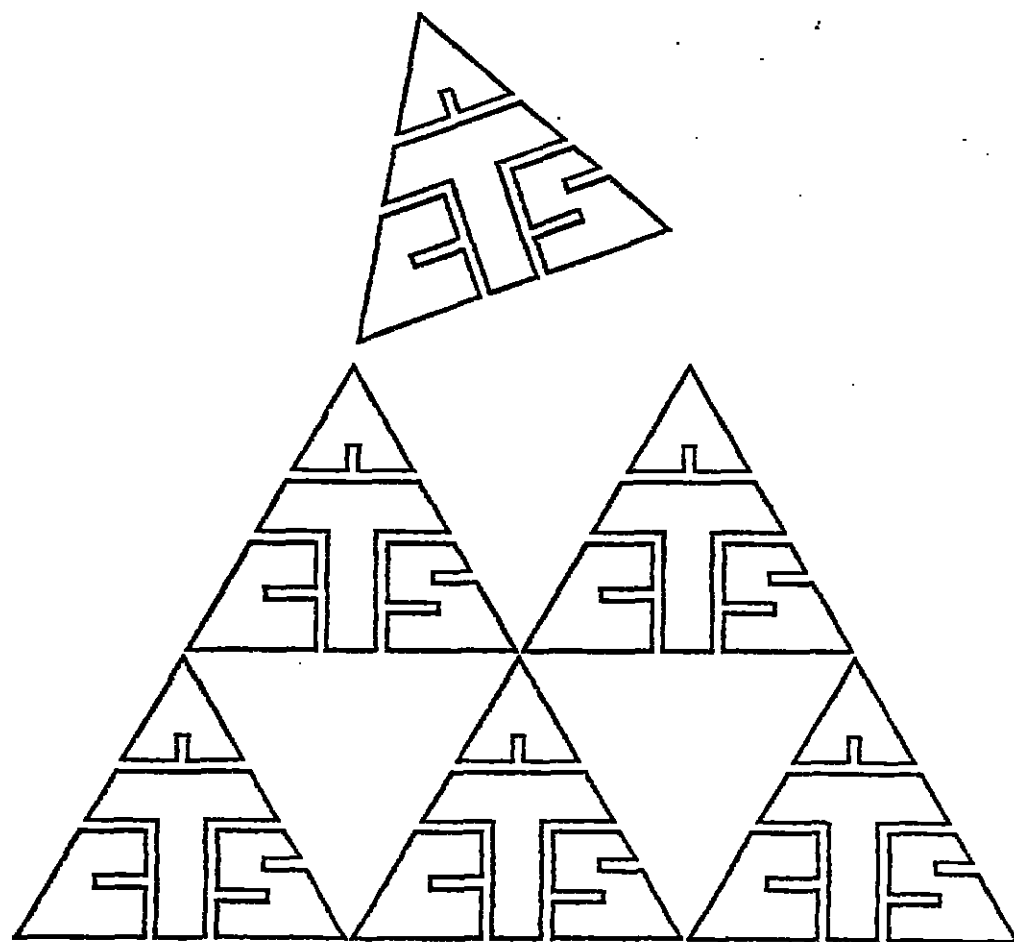
According to one banker: "We would want to see the market tested when rates were beginning to move up. At present we can't promise our customers that the market will be liquid. We might find ourselves having to buy the CDs back again."

The very success of ACTS in developing the market has meant that in these early stages it has been operating in favourable trading conditions. Instead

of the discounts when ACTS arrived on the scene, virtually all KD bonds are now quoted at par or above. Moreover, rates for CDs have been steady to slightly easier during the past year, or so, during which the market has been opened. Recently, though, the CD market has become very quiet.

The question is how much stock ACTS would be able to take on to its books in adverse conditions. That must be a new point, and in any case there are no precedents to suggest how KD investors might behave when interest rates were rising.

One way of tackling the problem would be the establishment of more market makers, and this is certainly something that has been widely canvassed. The other 'investment' companies KIC and KFCIC are thought to have bond and CD trading operations under consideration, and some of the other bank and financial institutions would certainly back such market-making operations even though they may not be prepared to initiate them. The general expectation is that ACTS will be joined by further market makers within the next year.



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KUWAIT BANKING AND FINANCE V

Property

Bedrock of local investment

"A year or so's time I can see that there will be quite a few areas of Kuwait—whole cities in some places—which will be looking rather fine. My end, the city will be magnificent."

This observation by one of the best of Kuwait's young property developers is symptomatic of the change that is overhauling the city. Hitherto conspicuously drab, combining the destruction of the old seafront town with the worst of modern architecture, it is now seeing some really impressive buildings coming into being, buildings which reflect new-found pride of their owners as well as the more competitive market.

The best known and most admired of these is the yellow neoclassical headquarters of the Kuwait Fund for Arab Economic Development, though a few dreary yards away down barak al Kibir Street the new Souk building and the new headquarters of the Gulf Bank and the Commercial Bank now give a better impression of what Kuwait might look like in the future.

Anyone coming new to Kuwait is bound to wonder why it did not seize the opportunity to start at some point over the 25 years or so of turning it into a bold and beautiful city of the best of later nineteenth century town planning and architecture. But to begin that the Government would have done to Kuwait what the Marzouk Pearl.

At the time this large apartment block, built right on the point where Kuwait Bay ends and the coastline turns south, was unique, on at least four counts. It was the only residential building in Kuwait or its surrounding first found itself. Suburbs built on the beach with oil revenue more oil revenues. It could spend on conventional development in 1952 and State (and by normal standards) State land buying became its principal means by which revenues were transferred. It included a supermarket and a hairdresser; and it was other methods being built owners (Khaled Marzouk where corporations rather than individuals are investing. The Kuwait market itself has changed in such a way that the provision of lavish services.

Within a year the building became the first asset of the economic necessity for the Kuwait Real Estate Company. For a start the cost of building has gone up to a point where it is now impossible to get one's money back in two or three years, as lucky investors of the 1970s. Then construction costs were about KD 30 per square metre of floor space, whereas a good building will now cost about KD 170 per

National Real Estate Company, which includes the Ministry of Waqfs (religious endowments), the Orphanage Fund and the Credit and Savings Bank among its shareholders, is reckoned to be less aggressive than the other two. All three companies rely on their capital and reserves plus bank loans for their resources; they do not take deposits as the Kuwait Real Estate Bank does.

The Real Estate Bank was founded in 1973, partly on the initiative of the Kuwait Real Estate Company, with the specific purpose of taking time deposits and savings accounts from the public (only borrowers may have current accounts) and lending the money to property owners—either companies or individuals. Loans must be secured on property but they need not be used for property development—indeed, the Bank aims specifically to avoid financing private house-building, which is the province of the old-established Credit and Savings Bank.

It is the property and investment companies, with the backing of the Real Estate Bank, rather than individual developers, who are now setting the pace in improving the quality of buildings. Two of the best-known developments of recent years—the Kuwait Souk and the South al Kibir—are owned by the Kuwait Real Estate Company, while one of the most talked-about developments now under way combines an office building, a Meridien Hotel and a shopping centre, and is being built by the Salhiyah Real Estate Company—a closed shareholding company partly owned by KIC.

There is more to the companies' emphasis on better building than the three-pronged influence of the desire to emulate the Marzouk Pearl for prestige reasons, the greater aesthetic consciousness of the new inflow of expatriates and of the Kuwaitis themselves as they travel more and the longer-term view that is bound to be taken where corporations rather than individuals are investing. The Kuwait market itself has changed in such a way that the provision of lavish services.

Generally speaking the Kuwait now cost about KD 170 per square metre of floor space, whereas a good building will now cost about KD 170 per

attitude of Kuwaitis to the value of land. In valuing a plot of land the normal Western approach is to start by taking the capital cost of construction, calculate what rent should be obtained from the building after operating expenses, and subtract a figure which would represent a reasonable profit. Then capital costs plus profits are deducted from the rent, and the residue represents the value of the land.

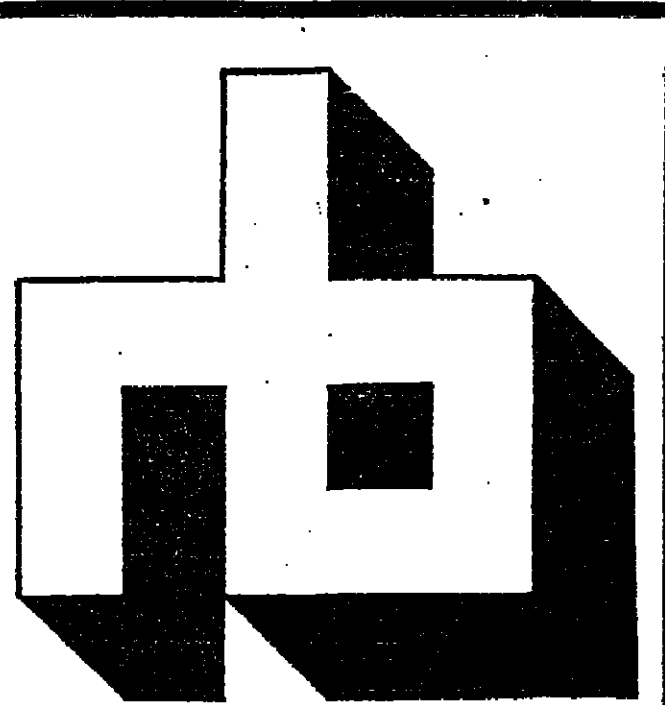
But if this technique is applied in Kuwait—or elsewhere in the Gulf—the figure arrived at will be far below what the market will pay in practice. Conversely, if one takes land prices paid into account when working out what levels of profits Kuwaiti property owners are making, the outcome would suggest that they are making losses on their operations—whereas normally their profits are regarded as enormous by Western standards.

This suggests that the Kuwaitis regard land as an investment in itself—as an asset which can only increase in value and which should not be expected to yield an income as well. Given their traditional attitude to buildings as things which will fall down in 10 years and can be written off in five, their view of land as a separate, more permanent investment is not illogical. They are also safe in assuming that land prices will continue to rise indefinitely, because the Government, already owning 90 per cent of the land in the city, is buying more land every year, and would be most unlikely ever to do anything to depress land prices.

With their attachment to land—which gives the Kuwaitis much greater reassurance as investors than bonds and share certificates—it is hardly surprising that land has been a major element in the foreign investment of both public and private sectors. Most private investment has been in personal homes—ranging from flats to country mansions—together with apartment blocks in Beirut and Cairo, though there have also been instances of Kuwaitis buying blocks for letting in London or joining with other Arab investors to buy hotels.

Michael Field

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The Law of Islam

Banks for the faithful

AMIC. SCHOLARS have been happy about the return of banking practices which have become established throughout the Muslim world. In the past few years have seen attempts in a number of countries to set up Islamic banks which do not offend conservative members of the Faith. This movement has now reached Kuwait.

It is thought that the Emir himself is behind the Kuwaiti initiative which has led to the setting up of the new Finance House. Certainly the Government has established a special law under which it can operate and has up to 49 per cent of the 10m capital, of which 2.5m has been paid up fully.

Debate has centred around the Islamic prohibition of interest. Already the Kuwaiti Government maintains strict controls on permissible levels of interest rates, but this is not high to satisfy strict interpreters of Shari'ah law.

Arguments are still going on among scholars to decide what is not usurious, what is best, what is profit and yield business contracts. Now the Government has set up a joint shareholding company specifically to engage in financial and insurance and various investment activities without practising usury or earning interest. This comes three years after establishment of the Islamic Bank of Dubai. Roughly similar institutions include the Islamic Development Bank in Arabi. Bank Faisal in this on a non-usurious basis, and Nasser's Islamic Bank in Cairo, while there are to be developing working relationships with other banks, both local and international.

"O ye who believe! Observe your duty to Allah, and give up what remaineth from usury, if ye are believers. And if ye do not, then be warned of war from Allah and His messenger. And if ye repent, then ye have your principal. Wrong not, and ye shall not be wronged."

immediate and significant impact. No figures are available but KFH claims that initial deposits are far beyond what had been projected. "They are ten times as much as we had expected," said a spokesman.

The key point about Islamic banking is that all forms of interest payments and receipts are banned. Such an organisation therefore has to operate on the basis of profit sharing and permissible charges or commissions. KFH will consult with experts, sometimes outside Kuwait, in order to be sure that its activities—which under its articles of association may cover a very wide field—shall be carried out "without practising usury in any form whatsoever."

For a start KFH is offering normal current account facilities to its customers, and savings accounts. Longer term deposits are being obtained through the issue of certificates of deposit (CDs). Time CDs are allocated a share of profits for a specific period. There are also certificates of unconditional continuous investment deposits which will run for a year or more. Funds obtained in this way will be available for investment for relatively long periods by the bank.

In addition KFH aims to operate in the wholesale money markets. How it intends to do this on a non-usurious basis remains to be seen but it claims to be developing working relationships with other banks, both local and international. House Wells Fargo is mentioned as one of the banks with which agreement has been reached. Judging by the modest banking hall, one dipping its toe in the water, it is just beginning to

articles provide that 5 per cent of profits shall be set aside as a first portion of the earnings to be distributed among shareholders and investment depositors.

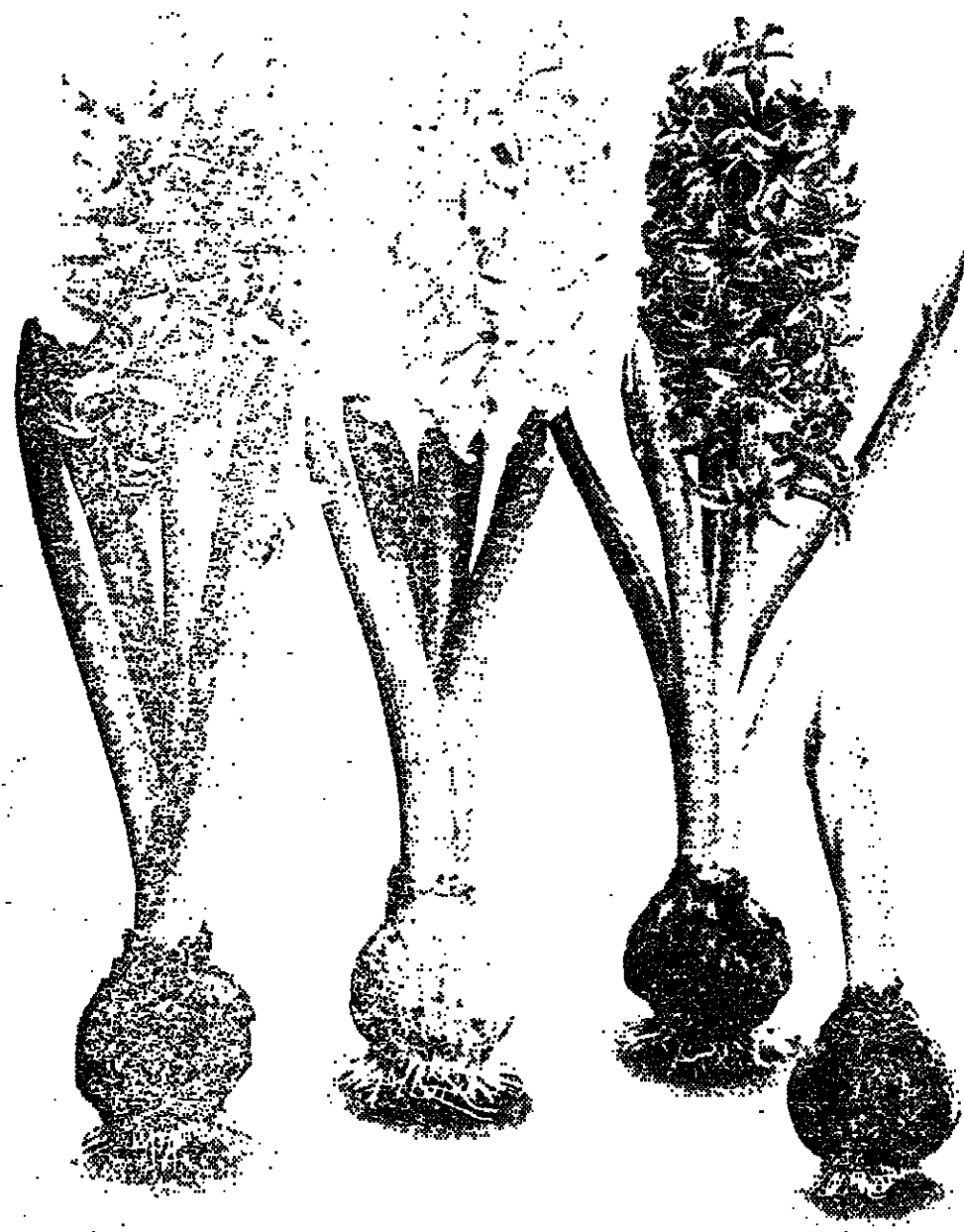
Clearly KFH is very much an unknown quantity at this stage. Its likely return to depositors is a matter for guesswork—though the Dubai bank is claimed to be paying out good profits. Yet there is a strong religious pull among the more conservative sections of the population.

Many citizens refuse to accept interest on their savings accounts with the normal commercial banks in Kuwait. They hold specially coloured deposit books to distinguish their accounts from the normal savings accounts which return interest of at least 4½ per cent. This satisfies their conscience and leaves the banks happy too. Such customers form an obvious market for the new Islamic bank. For them any non-usurious return on their money, however small and uncertain, will represent an improvement. On the lending side too KFH reports a steady stream of telephone inquiries, though it intends to study the market further before opening up this aspect of its operations.

The conventional commercial banks in Kuwait vary in their attitude to the KFH. Some regard it as a curiosity which will only operate in a specialised corner of the market. But others take it much more seriously—and indeed KFH intends to set up more branches; it is licensed to carry on almost all kinds of business. Significantly, at least one of the largest commercial banks has been exploring ways and means by which an Islamic banking service might be run side-by-side with the conventional "usurious" banking operation.

B.R.

**Dutch imports: Dfl. 111,920 million.
Dutch exports: Dfl. 107,197 million.**



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[illegible]

NOTES

Prices do not include \$ premium, except where indicated * and are in pence unless otherwise indicated. Yields * shown in last column allow for all buying expenses. A Offered price includes all expenses. B Today's prices. C Yield before other price. D Estimated. E Tomorrow's price. F Distribution. G Periodic. H Premium insurance plan. I Premium insurance. A Offered price includes all expenses except agency's commission. J Offered price includes all expenses if bought through managers 2 previous days. K Offered price includes capital gains only if less indicated by G. L Currency gains. M Suspended.

* Yield before Jersey tax. L Tax-substitution.

INDUSTRIALS-Continued INSURANCE-Continued PROPERTY-Continued INV. TRUSTS-Continued

Table with multiple columns for stock prices and company names under various market categories.

DAIWA SECURITIES

Table with multiple columns for stock prices and company names under various market categories.

MINES-Continued CENTRAL AFRICAN

Table with multiple columns for stock prices and company names under various market categories.

AUSTRALIAN

Table with multiple columns for stock prices and company names under various market categories.

TINS

Table with multiple columns for stock prices and company names under various market categories.

OVERSEAS TRADERS

Table with multiple columns for stock prices and company names under various market categories.

COOPER

Table with multiple columns for stock prices and company names under various market categories.

MISCELLANEOUS

Table with multiple columns for stock prices and company names under various market categories.

NOTES

Table with multiple columns for stock prices and company names under various market categories.

TEAS

Table with multiple columns for stock prices and company names under various market categories.

MINES

Table with multiple columns for stock prices and company names under various market categories.

CENTRAL RAND

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EASTERN RAND

Table with multiple columns for stock prices and company names under various market categories.

FAR WEST RAND

Table with multiple columns for stock prices and company names under various market categories.

O.F.S.

Table with multiple columns for stock prices and company names under various market categories.

FINANCE

Table with multiple columns for stock prices and company names under various market categories.

DIAMOND AND PLATINUM

Table with multiple columns for stock prices and company names under various market categories.

OPTIONS 3-month Call Rates

42

STEEL

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British Airways to seek Atlantic fare rise

By Michael Dorn, Aerospace Correspondent

BRITISH AIRWAYS is expected to ask the UK and U.S. governments soon for permission to raise all transatlantic air fares by about 5 per cent from next April 1.

Existing differentials between various classes of traffic will be preserved. But continued inflation is eroding the financial position of all the Atlantic airlines, including British Airways, and others are also expected to seek fares rises.

British Airways, in common with its competitors, is studying the effects of the ultra-cheap fares such as Stand-B and Budget Plan rates introduced a year ago.

The indications are that, whereas overall Atlantic traffic this summer has risen by about 15 per cent, the revenue yield has gone up by much less with some airlines losing money and others making only small profits.

British Airways is understood to have made a profit on the North Atlantic, but not enough to enable it to stave off the need for fares rises next year.

The overall position is expected to be reviewed soon by UK and U.S. Government officials when they meet to consider what action to take over cheap fares for next summer. It is then that British Airways' plan for fares rises will be put to the U.S.

The UK Government is more cautious view than the U.S. over Atlantic fares, and is expected to support British Airways' plan. But the U.S. Government has already rejected proposals by Trans World Airlines for a fares rise next summer, and is not expected to welcome the UK move.

Meanwhile British Airways is introducing from October 29 a three-class concept of cabin service on the Atlantic route—First, Club (which includes the full economy-fare passengers), and Discount, which will include all the cheap-fare travellers.

Discrimination

The move is in line with that of several other Atlantic airlines, which are also introducing the three cabin concept of service, although they call them by different names: Trans World Airlines has sought permission for First Class, Full Fare Coach and Economy classes which the Civil Aeronautics Board of the U.S. has temporarily turned down. Other airlines adopting the concept include Air India, KLM, Lufthansa and Pan American and others are expected to follow suit.

The change reflects the airline's recognition of the need for more discrimination between passengers travelling on the new class of ultra-cheap fare, and those, mainly business travellers, paying the full economy class fare.

At the same time, British Airways recognises that the new class fares including Stand-B, Advanced Purchase Excursion fares, is here to stay, and it will continue to include them in its overall fare "package" now being prepared for next summer, although at higher levels than have prevailed this summer.

The interiors of its Boeing 747 Jumbo jets flying the North Atlantic are being modified to provide special seating areas for Club Class passengers.

These travellers will get free drinks and in-flight entertainment, and a higher standard of meals service.

Mr. Gerry Draper, British Airways' director of commercial operations, said yesterday that it recognised that the business travellers deserved a new deal. The businessman had paid a fare up to three times higher than many discount fares.

CAB rejects Transworld plea

UK official reserves up £54m last month

By Michael Blanden

THE UK's official reserves rose by £54m (£54m) last month to £16,511m (£16,511m), reversing the previous month's decline of £330m.

After allowing for identified borrowings and loan repayments, the figures show an underlying increase in the reserves of \$63m (\$191m).

This suggests that the Bank of England took in some foreign currency during the month as a result of support operations for the dollar.

The pound came briefly under pressure towards the end of the month as a result of doubts aroused by the Ford strike. But for most of the period the exchange markets were dominated by the continuing weakness of the U.S. currency.

The pressure on the dollar was renewed yesterday as the exchange markets reacted

further to the weekend measures by the Swiss authorities to bring down the value of their currency. Sentiment was also affected by a prediction from Mr. William Miller, Federal Reserve chairman, that U.S. interest rates would peak before the end of the year.

With widespread intervention to hold down the Swiss franc reported in Europe, the main effect was to boost the West German D-Mark, one of the main aims of the Swiss Government.

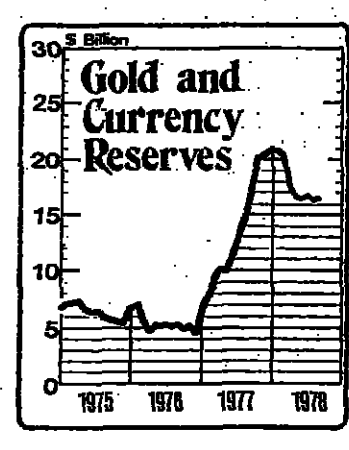
However, the dollar slipped back again, reaching a new low against the D-Mark and losing ground against the Swiss franc. The renewed move out of

U.S. interest rates Page 4
Mining News Page 26
Money Markets Page 29

dollars also took the gold price to another new peak. It closed in London at \$222 1/2 an ounce, a rise of 5 1/2, compared with the previous record closing level of \$219 1/2.

The dollar ended the day's dealings in London at DM19.115 against DM18.327 on the previous day, and fell from SwFr1.5915 to SwFr1.5730. The pound also gained 20 points to \$1.9735, but with other currencies rising more rapidly sterling's trade-weighted index slipped from 62.7 to 62.5.

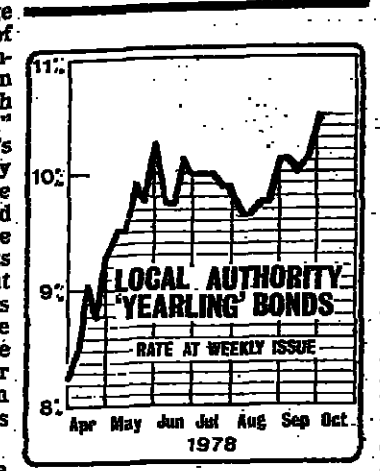
The UK reserve figures were affected by two main special items: Foreign currency borrowing by the public sector under the exchange cover scheme totalling \$150m. This was the first tranche of a \$500m loan arranged with Japanese bankers by the Electricity Council; the



THE LEX COLUMN

The squeeze that could hurt

Index rose 6.0 to 505.2



The Prime Minister yesterday threatened the Labour Party conference with "restrictive economic policies should wage rises lead to an acceleration of the inflation rate. The Government will take offsetting action to keep inflation down through monetary and fiscal measures."

In the City, Mr. Callaghan's speech received a modestly favourable reception on the vague grounds that he seemed to be standing firm: both the gilt-edged and equity markets regained a little of their recent falls. But if the Government is really determined to "squeeze out" inflation—and there are admittedly reasons for scepticism ahead of an election—the financial implications could be quite painful.

The key question is: Will the measures in fact be primarily fiscal or monetary? Already there is a serious case to be put forward for tightening fiscal policy, and it is likely to get stronger. The high-risk decision to aim for a PSBR of £8.5bn in 1978-79 was taken on the assumption that this would be compatible with "economic growth of 3 per cent, while the balance of payments would be in modest surplus. In fact GDP on the output measure was rising at an annual rate of over 5 per cent in the first half of 1978, and the Government's expenditure has been climbing at well over the planned 4 per cent rate, and the balance of payments is only just about breaking even. This expansion has led to a surge in private sector credit demand (recently running at about £5bn a year) which has unsettled the gilt-edged market and helped to produce the unusual phenomenon of significantly positive real interest rates.

An economic package to raise taxes and/or cut Government spending would cool the economy and make the official anti-inflationary stance more credible. It would also take the pressure off the capital markets. Politically, however, the change to a tighter fiscal stance would be a virtually unprecedented step to take ahead of a General Election which is unlikely to be more than six months away.

The danger in these circumstances is that the burden will once again be placed upon monetary policy, which is much less of an electoral factor—at least so long as the impact on mortgage rates can be cushioned somehow. Was the Prime Minister hinting yesterday that the

believes it will get a better more efficient service. Price Waterhouse, but does not feel it can say as much without libel to the public. This is just the implication the move has, regardless of the plan—particularly in the close-knit Far East community.

To some extent the two quads, decision to drop out of the attack yesterday was a desire to preserve the firm's image and reputation as far as possible. But in giving the Darby board what is almost amounts to an ultimatum to reveal their real reasons for planned change Turquand is either taking a great risk or are resolute in their belief that they are being victimised against shareholders' interests. If the Sime board does not respond Turquand is threatening to reveal more. So the ball is firmly in the Sime board directors' court.

Armstrong Equipment

Armstrong Equipment's growth record continues to be impressive: earnings per share grew 84 per cent in 1977 and the company is thinking in terms of over £10m profit in the present year. That the shares should be standing at such a modest price (around 100p) reflects concern that this record may be hard to maintain by means of the purchase and transformation of small companies at which Armstrong is undoubtedly expert. Its loss of sales for 1977 may be another factor.

The company is undertaking a further re-organisation and expansion of its retail/wholesale sales division to push for higher market share in car space parts, particularly exhaust systems. Distribution has been a problem in the past, with the profits growth coming mainly in manufacturing. Armstrong has pulled out of production in Canada as a result of a retail price war in the U.S. spare parts market, and intends to buy a French manufacturer to back up its Normandy-based distribution company. The current Ford strike is a relatively minor headache: more important shareholders will be hoping for good news from Ford in the form of work on the Escort model, the planned replacement for the Escort.

ICI ready to go ahead with £800m projects

By Kevin Done

IMPERIAL Chemical Industries has decided to press ahead with its ambitious plans to sanction capital expenditure projects worth more than £800m this year, in spite of repeated warnings that they could not be justified by current profitability.

Mr. Robin Ibbis, ICI's planning director, has told employees that, following completion of the mid-year capital expenditure review, plans for future capital spending will be kept at the same level as that announced in the spring.

ICI is ready to give the go ahead for the spending of more than £800m on future projects, a vital step if actual capital spending is to be kept near this year's proposed record level of £700m.

But Mr. Ibbis warned that profitability would have to be improved to justify such a high rate of capital spending being continued into 1979 and beyond. The level of new projects for 1978 was still open and no forecast could be made.

About 50 per cent of the expenditure to be announced this year will be for projects in the UK, but it is likely that a significant share of this will go to modernising and improving existing plants rather than to

adding new capacity. Last year, for example, ICI spent £130m in the UK on plant improvements.

Much of the expenditure on new capacity will be directed overseas. ICI is building the £200m first stage of a major new chemicals complex at Wilhelmshaven in north-west Germany to manufacture chlorine, caustic soda, vinyl chloride monomer, and polyvinyl chloride, one of the most widely used commodity plastics.

Negotiating

In the U.S. it has bought a £30m plant in Louisiana from Allied Chemical and is negotiating to buy American Color and Chemical, a U.S. dyestuffs manufacturer, for about £26m.

In the UK this year the company has sanctioned part of its £140m chlor-alkali expansion at Wilton on Teesside and has said it will spend a further £21m on its soda ash works in north-west England.

On current trading conditions Mr. Ibbis said the increase in consumer spending was tending to benefit ICI's sales at the expense of UK manufacturers.

This meant that ICI's Indus-

trial customers in the UK were not increasing their demand as quickly as spending was rising, although some benefit was being felt.

The stronger exchange rate had also reduced export profits. In the first half of 1978, ICI achieved pre-tax profits of £251m compared with £309m in the first half of 1977.

At its biggest petrochemicals complex at Wilton on Teesside, ICI still has five plants shut down and another working at reduced capacity as a result of the prolonged industrial dispute over the training of instrument artificers, the men who look after control room instruments.

No official talks have been held with trades union officials since August and no meetings are planned at present.

However, the problem of recruiting new artificers could be slightly in response to a recent nationwide advertising campaign.

And ICI said yesterday that one of the closed units, the smaller ethylene plant, will be started up again next week. This will allow the bigger cracker to shut down for maintenance work.

Smurf sales halted after some fail safety test

By Lynton McLean

Sales of Smurf toy figures—part of the most successful petrol promotion since the 1960s—have been suspended because of excessive lead levels in the paint used on some of them.

National Benzole, which launched the promotion in May, said last night that some of the plastic toys, imported from Germany, broke the UK limits. The Smurfs will not be available again till the end of the month.

More than 2m Smurfs have been sold by garages for 36p each to buyers of National Benzole petrol and even non-car owners.

The campaign, which was hailed by the company as the start of a children's cult, was seen in the oil industry as one of the most imaginative in petrol retailing since the Esso "time for a tank" promotion.

The company estimated that the promotion had boosted its share of the petrol market in England and Wales by up to half a per cent to 6.5 per cent.

Sales of Smurfs have now been stopped by the company, as tests showed that the lead content of the paint used on some models was greater than the limit specified in the Toys (Safety) Regulations 1974.

The West German manufacturers gave assurances that the figures conformed in all respects to British law. However, tests carried out by local authority analysts showed that the amount of lead in the paint did exceed, in some cases, levels set by UK law.

The amount of lead which could be absorbed from the paint was not a significant risk to the health of a child.

The Department of Health and Social Security said there was no need to call in the 2m figures already sold.

National said that the campaign had been introduced to add a "bit of fun to garage forecourts and to make a mark in the industry, as well as to help sell more petrol."

The campaign had involved T-shirts, play sets, sew-on badges as well as the lead-painted plastic figures.

National said last night that the West German regulations covering lead content of paint were less strict than those in Britain. It had considered there was no need to verify the assurances of the German manufacturer. A new batch of Smurfs to be sold in Britain later this month would be painted in the UK.

Labour Left proposal rejected

By Elinor Goodman

LEFT-WING attempts to ensure that Labour Party activists have a major role to play in the election of the party leader failed yesterday at the party's conference in Blackpool.

Another move by the Left to change the constitution so that every MP has to go through full reselection for each Parliament, also failed.

Earlier in the day, however, the Left had a qualified victory in the elections to the 29-member National Executive Committee. It increased its representation in the constituency division and more than held its own in the union section with the election of the well-known Left-winger, Mr. Doug Oyle, MP for Nelson and Colne.

Mr. Dennis Skinner MP for Bolsover, and Mr. Neil Kinnock MP for Bedwely.

Mr. Kinnock lost one of his most loyal supporters on the executive when Mr. John Cartwright, MP for Vauxhall, left the party and is negotiating to buy American Color and Chemical, a U.S. dyestuffs manufacturer, for about £26m.

In the UK this year the company has sanctioned part of its £140m chlor-alkali expansion at Wilton on Teesside and has said it will spend a further £21m on its soda ash works in north-west England.

On current trading conditions Mr. Ibbis said the increase in consumer spending was tending to benefit ICI's sales at the expense of UK manufacturers.

This meant that ICI's Indus-

The compromise, which, after two years of passionate debate, was approved by conference yesterday, means that constituency associations will have the option of putting their MPs through the full re-selection process. Re-selection will not, therefore, be mandatory as favoured by the Left and a minority group within the NEC.

Party moderates took comfort from the fact that Mr. Skinner and Mr. Kinnock were well to the party's Left, they might prove to be less subtle champions of their cause than Mr. Mikardo, the acknowledged leader of the Left and a master of tactics.

Mr. Mikardo, who has been on the executive since 1950, appears to have alienated his traditional supporters by being too closely identified with the NEC's compromise proposal for the re-selection of MPs.

Moderates

In the women's section, the famed modern candidates failed to oust the Left-wingers though moderates like Mrs. Shirley Williams, Education Secretary, retained her seat.

In the constituency section, Mr. Callaghan lost his old Left-

wing adversary, Mr. Ian Mikardo, but gained two new militant opponents with the election of Mr. Dennis Skinner MP for Bolsover, and Mr. Neil Kinnock MP for Bedwely.

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Radical ideas

The conference also rejected the more radical ideas put forward for appointing the party leader. Presented with three options, two of which would have denied the parliamentary party the exclusive right to elect the leader, conference voted for only a slight deviation from the status quo.

The party's constitution will be changed next year to make it clear that the leader of the parliamentary party is also leader of the Labour party. As at present, however, it will be MPs only who have the right to vote for the leader.

Weather

UK TODAY

MOSTLY dry in south, some rain in north.

London, E. Anglia, S.E. Cent. S. E. and Cent. N. England, E. Highlands, Channel Is. Dry, sunny spells. Max. 16C (61F).

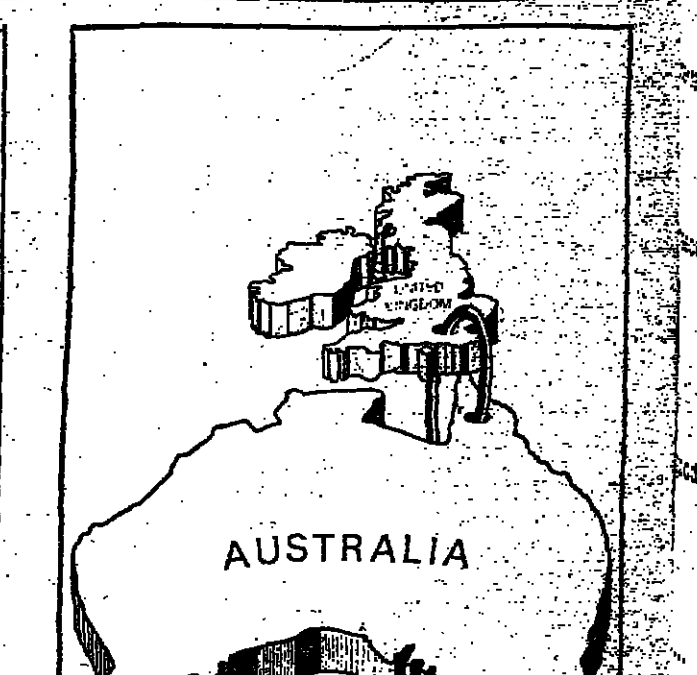
S.W. England, S. and N. Wales Showers, sunny spells. Max. 15C (59F).

N.W. England, Lakes, Isle of Man, N.W. and N.E. Scotland, Glasgow, Cent. Highlands, Argyll and N. Ireland Rain later. Max. 15C (59F).

N.E. England, Borders, Edinburgh and Dundee Mostly dry, sunny spells. Max. 15C (59F).

Aberdeen, Moray Firth, N.E. Scotland, Orkney and Shetland Scattered showers. Max. 13C (55F).

Outlook: Mostly dry, occasional rain in north.



BUSINESS CENTRES

	Y'day	Today		Y'day	Today
	midday	midday		midday	midday
Amerst.	C 10	30	Luxemb.	F 10	30
Athens	C 10	30	Madrid	C 10	30
Bahrain	C 10	30	Manch.	C 10	30
Barcelona	C 10	30	Melbourn	C 10	30
Berlin	C 10	30	Milan	C 10	30
Bombay	C 10	30	Montreal	C 10	30
Buenos	C 10	30	Moscow	C 10	30
Calcutta	C 10	30	Munich	C 10	30
Canton	C 10	30	Norwich	C 10	30
Cebu	C 10	30	Osaka	C 10	30
Colon	C 10	30	Paris	C 10	30
Hankow	C 10	30	Rome	C 10	30
Hong Kong	C 10	30	Stockholm	C 10	30
Kobe	C 10	30	Tokyo	C 10	30
London	C 10	30	Yokohama	C 10	30

HOLIDAY RESORTS

	Y'day	Today		Y'day	Today
	midday	midday		midday	midday
Algeria	R 18	01	Iranian	C 10	30
Amsterdam	R 19	04	Jersey	C 10	37
Antwerp	S 16	01	La Fling.	C 10	35
Bath	C 13	20	Louren	C 10	34
Bombay	C 13	20	Malaya	C 10	04
Buenos	F 16	01	Malaga	S 24	73
Calcutta	C 13	20	Manila	C 10	34
Canton	C 16	01	Nairobi	R 24	75
Cebu	S 27	01	Naples	R 15	20
Colon	S 27	01	Norwich	R 15	20
Hankow	S 22	77	Osaka	R 15	20
Hong Kong	R 17	02	Rhodes	C 10	35
Kobe	R 17	02	Salduba	C 11	37
London	C 13	20	Seoul	C 10	37
Luxemb.	C 13	20	Tunis	F 22	72
Madrid	C 13	20	Vandina	C 20	04
Manch.	C 13	20	Venice	R 16	01
Melbourn	F 15	04			
Milan	S 24				
Montreal	S 24				
Moscow	N 1	01	St. Petersburg	R 15	20
Munich	S 24				
Norwich	S 24				
Osaka	S 24				
Paris	S 24				
Rome	S 24				
Stockholm	S 24				
Tokyo	S 24				
Yokohama	S 24				
Zurich	S 24				

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West Bengal flood chaos

Dr. P. L. Agarwal, chairman of the Steel Authority of India, says the 1.6m-tonne, British-built steel plant at Durgapur will not be operating again until the end of October.

At least one month's steel production will be lost, although serious damage to the coke ovens was averted.

Durgapur recorded 675 mm of rain between September 26 and 28 compared with the annual norm of 1,300 mm. Various installations were inundated, particularly the coal reclamation and handling systems and the underground cellar of the rolling mills. The plant ground to a halt. Reports from Indian Iron and Steel Company's Burpur plant say damage is not as heavy there but production has been affected.

Coal production is the worst hit and this could start a chain of events, the Energy Minister, other industries. Mr. C. Ramachandran, the Energy Minister, says it will take between one to three months for the coal mines in the eastern region to start normal production. Efforts are being made to get about 200 pumps to drain mines belonging to steel plants put at Rs50m.

to the central Government-owned Eastern Coalfields and Bharat Coking Coal. For Eastern Coalfields alone, 45 of the 116 mines have been flooded for the time being. The number is only slightly less in Bharat Coking Coal.

Mr. Ramachandran estimates the loss of production at 30,000-35,000 tonnes daily for each company. Eastern Coalfields' production in the October-March period will fall by about 5m tonnes while Bharat Coking Coal will lose 3m tonnes. The loss in production alone will amount to about Rs500m. The national production target of 102m tonnes in fiscal 1978-79 will not be achieved.

No immediate shortage is feared because of substantial pithead stocks but steel plants may eventually be starved of coking coal and thermal stations of their supplies.

The West Bengal jute mills were ailing before the floods and have now been dealt another severe blow. Production losses in the eastern region to start since September 27 are estimated at a minimum of 10,000 tonnes. Damage to raw and manufactured jute stocks is put at Rs50m.

Fifteen mills in the Budge area have stopped working and attendance at others is poor. Power shedding is hitting production in mills and other factories, and the supply shows no sign of improving.

Mr. K. K. Kanaria, chairman of the Indian Jute Mills Association, has demanded restoration of the subsidy on jute exports and withdrawal of excise to help the industry.

The state estimates that crops on 2.5m acres have been destroyed for the third time this year and that damage could amount to Rs2bn. Part of the jute crop on 1m acres was harvested before the floods, but about half has probably been destroyed.

Plans are being made to supply fertilisers and seeds for wheat, potatoes, rice and pulses but one knows when distribution will begin and when farmers will be able to resume work.

Tentative estimates are that damaged irrigation canals and river embankments will cost Rs200m to repair.

West Bengal is reeling and floods have again hit already inundated districts making millions homeless.

Pay flexibility

the Treasury the conditions on wages have laid down in the White Paper.

"The Government will carry out its inescapable obligation to prevent inflation by whatever means are at hand, relying as much as it can on the responsibility of the trade unions and upon our fixed policy, which I will try to interpret as easily as possible within the limits laid down in the White Paper."

Mr. Moss Evans, of the Transport workers' union, said after the speech: "This in no way detracts from our policy of continuing to bargain freely with employers on the basis of their ability to pay."

"But if Mr. Callaghan and his colleagues are prepared to talk about economic and social problems, then we are prepared to take part in these discussions."

Mr. Joe Gormley, president of the miners, said the speech had been conciliatory and had left him more optimistic about monetary policies would merely produce still greater unemployment and further industrial stagnation.

Mr. Alan Fisher, public stagnation,

employees, welcomed the possibility of some leeway for his low-paid members, but was concerned that talks between the TUC and Ministers would not be enough to fend off pressure from public-service workers for big pay rises this autumn.

Rapier, Cornwell writes: Mr. David Steel, the Liberal leader, has stepped his call for a permanent statutory incomes policy as the first priority for Parliament when it returns next month.

The country had now been offered by Mr. Callaghan and Mr. Denis Healey, the Chancellor, the choice between 5 per cent wage limits policed by arbitrary sanctions, "or monetary and fiscal policies that one can only assume will be borrowed from Sir Keith Joseph's Centre for Policy Studies," he said.

The first course would lead only to unfairness, strikes and even greater flattening of differentials, while fiscal and monetary policies would merely produce still greater unemployment and further industrial stagnation.